

Dalmia Cement (Bharat) Limited

Analyst Call on KKR's Investment in Dalmia Cement

May 7, 2010

Moderator: Good evening ladies and gentlemen. I am Vishwanath, the moderator for this conference. Welcome to Dalmia Cement (Bharat) Limited Conference Call. 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. I would like to handover to Ms. Nidhi Aggarwal, Head - Investor Relations. Thank you and over to you ma'am.

Ms. Nidhi Aggarwal: Thank you and welcome to all of you. Thank you for logging in at such short notice. We really appreciate that and hope by now you would have received our press release and the presentation, which talks about KKR and its investments of Rs. 750 crores in Dalmia. So, there would be certain information points that we would not be able to share at this point in time. Kindly appreciate that and over to Mr. Puneet Dalmia.

Mr. Puneet Dalmia: Thank you all of you for joining us on this call. It is a very significant day for us. We have raised our largest ever equity capital in the history of the group. We are delighted to form this partnership with KKR. We believe that this is a transformational partnership. Given our growth plans and ambition, we wanted a partner who really had the conviction in the Indian growth story, and who had the ability to back an entrepreneurial team. We found that partner in KKR after a lot of work, and I think our own belief is that this has set up the company for not just organic growth but also inorganic growth. We also feel that given the journey that we are in, we will benefit from the tremendous experience that KKR will bring to the table in terms of building world-class institution and giving us access to the highest quality processes in corporate governance and transparency, and we are delighted to be a part of this journey together with KKR. Overall, we have a right to draw down up to 750 crores. We are planning to draw down 500 crores immediately. We have an option to take another 250 crores in the next 18 months. The total dilution expected in this is around 15% to 20%. We think that this capital will be partly used for deleveraging purposes, and this will be partly used to fund our growth plans in Dalmia Cement Ventures Limited. From an overall capital raising standpoint, I think we are done for now. We are all set, and we now want to focus totally on execution and getting high quality ramp-up of our existing capacity and trading new capacity to serve the infrastructure boom we think

will happen in the country over the next decade. Thank you very much for joining us, and we appreciate the fact that you could join us on Friday evening, and I look forward to the Q&A.

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. First on line, we have Mr. Bhavin from Enam Holdings.

Mr. Bhavin: Yeah, congratulations to the team for the deal. Three to four questions, Puneet, first on the structure, if you can update us on the debt level which will remain in Dalmia (Bharat) Enterprise and the debt level which will remain in the sugar company which is already listed, and the debt which will go down to Avnija, and what is this Dalmia Power which is, would it become 100% subsidiary, what it will have like, if we can have just rough borrowings or balance sheet numbers on that based on March 2010?

Ms. Nidhi Aggarwal: You know, if I may answer that question, you know, March 2010 numbers we are not yet talking about, but in terms of December end numbers, the net debt for the cement company would be close to about 800 crores on a pro forma basis once this 750 crores comes in.

Mr. Bhavin: So, you are saying 800 crores after 700 crores infusion.

Ms. Nidhi Aggarwal: 750, yeah.

Mr. Bhavin: Okay, and based on the...for the 10 million Greenfield projects, what are the project timelines like which are the priority projects and can be immediately taken up, if you can give us update on that.

Mr. Deepak Sogani: Again, there has been no corporate decision on that matter, so we will have to kind of you know inform these things to you over a period of time.

Mr. Bhavin: Okay.

Mr. Deepak Sogani: Now that we have capital, you know, in the short-term, we should be announcing something over there.

Mr. Bhavin: Okay, and my last question sir, how much was the debt in the sugar business?

Mr. Deepak Sogani: Sugar business has around, you know, 500 crores debt at this point of time.

- Mr. Bhavin:** Okay, thanks a lot sir.
- Moderator:** Thank you very much sir. Next on line, we have Mr. Navin Gupta from UBS Securities.
- Mr. Navin Gupta:** Hi Puneet, congratulations on the deal. There are a couple of questions, one, these 750 crores are for a 15% or 20% stake sale if you could just clarify that?
- Mr. Deepak Sogani:** That is for, sorry, around 20% dilution.
- Mr. Navin Gupta:** 20% dilution.
- Mr. Deepak Sogani:** Not exact, the band is 15% to 20%, so that is where it is.
- Mr. Navin Gupta:** Okay, and the 10-million tonne expansion which you had, I believe you had debt....the total capex excluding the power plant and that was 4,500 crores.
- Mr. Deepak Sogani:** Right.
- Mr. Navin Gupta:** How much, the debt tied up was 3250 and of the balance equity funding of 1250, I think you are putting 250 crores and you had tie-up for 100 crores, but you know, 900 crores was still short in that, and plus you had the 700 crores from the power project which was unfunded, so you know, if I take this 750 crores assuming that goes into that project, we are still short of 150 in equity on the 10 million tonne project and plus 700 on the power project, so how are you trying to.... with this 750 crores.
- Mr. Deepak Sogani:** There are two questions. As you rightly said, the gap in the DCBL or for the new projects is about 900 crores.
- Mr. Navin Gupta:** Yeah.
- Mr. Deepak Sogani:** Now that we have access to 750 crores, you know, part of the gap gets filled up from there. Part of it will be taken care of from the operating cash flows as we go along because it is not as if we need the cash now, it will be required over the next two to three years, and that is how that will get done. The power company post restructuring will be completely unleveraged, so the balance sheet over there will provide some ability to raise capital to take on few power projects, so right now the thought is to, you know, kind of build a financing structure of the power company separately in that company, and that we will have to develop as we go along.
- Mr. Navin Gupta:** Okay, that is fair enough, and just one final clarification. In terms of timeline, where do we see this 10 million tonnes coming through, given that now bulk of the equity funding is tied up now.

Mr. Deepak Sogani: I think you know we are watching the market scenario very closely. No. 1, we obviously need to feel very comfortable with the current market scenario before we kind of you know take aggressive steps on that, 1. Second, obviously, the equity gap is already behind us, so what we will really do is we will start something soon enough and whenever there is a corporate action, we will kind of announce, but the entire 10 million tonnes may take somewhere between 2 to 4 years.

Mr. Navin Gupta: 2 to 4 years, and just one more from this, net debt of 800 crores which is there in the cement business, this does not include the OCL debt, that would be around 450 crores separately right?

Mr. Deepak Sogani: Yeah, that is separate, that is right.

Mr. Navin Gupta: Sure, thank you very much.

Mr. Puneet Dalmia: Welcome.

Moderator: Thank you very much sir. Next, we have Jaspreet Arora from Anand Rathi Financial.

Mr. Jaspreet Arora: Hi, and congratulations to the management on this deal.

Mr. Puneet Dalmia: Thanks.

Mr. Jaspreet Arora: Just wanted to check, Puneet, on the plans with regards to the power business, if you could just share that with us?

Mr. Deepak Sogani: See, I think right now, you know, what we have done is in the restructuring process, as you have already, you know, we did the con-call and we shared the details.

Mr. Jaspreet Arora: Right.

Mr. Deepak Sogani: We have created an enabling structure to build our business, right?

Mr. Jaspreet Arora: Correct.

Mr. Deepak Sogani: However, currently, our key focus is our cement and sugar business, right.

Mr. Jaspreet Arora: Sure.

Mr. Deepak Sogani: And if the power company right now has only the captive power, and in the near end, you know, it will continue to build on its current captive power, you know, till we really kind of focus and put in some additional capital over there, so for the time being, it is an enabling structure to develop captive power.

Mr. Jaspreet Arora: Sure. So, this entire money would be utilized for the cement expansion in Avnija.

Mr. Deepak Sogani: Absolutely, that is correct.

Mr. Jaspreet Arora: Okay fine, and I know you have already told this before, but if you could just give us a sense as to when exactly would you be placing orders for this 10 million tonnes and how would it be spread out in phases.

Mr. Deepak Sogani: I think we have already answered this question couple of times, you know, right now, there has been no board approval or any corporate action taken in respect of these 4 projects. We are very close. After this equity dilution, we will be able to certainly, you know, announce projects. The entire 10 million tonnes will take maybe 2 to 4 years, right.

Mr. Jaspreet Arora: Sure, and this would be, if you would share, in the region of South itself or even that is something that....because your presentation mentions moving to pan-India status, so I was just wondering if you have...?

Mr. Deepak Sogani: We have projects that are being implemented in South, in East, and in the North as well, right.

Mr. Jaspreet Arora: Sure.

Mr. Deepak Sogani: So, it will be a mix of, you know, all the regions so that we can really, you know, kind of start creating a pan-India footprint.

Mr. Jaspreet Arora: Alright sir, then we will wait for those details. Thanks.

Mr. Deepak Sogani: Thanks.

Moderator: Thank you very much sir. Next, we have Mr. Rakesh Arora from Macquarie.

Mr. Rakesh Arora: Sir, congratulations on the deal and obviously you have taken care of your debt position given the market condition. My question was that when I look at your dispatch number, you are still operating at some 4.2 million tonnes run-rate, and we have to service the debt and interest for 9 million-tonne capacity, so when do we think we can reach to that optimal production level?

Mr. Deepak Sogani: You know, firstly our apologies. We are in a kind of quiet period at this period of time because we are about to conclude our annual financials, and we will hold a con-call after that. So, we really wanted to do this call primarily to share, you know, the information on this transaction and the details whatever we could share. We will obviously do a con-call immediately after our annual financials

to talk about our operations, so just pardon us. We are not going to be able to talk of operations on this call.

Mr. Rakesh Arora: Well, okay. So, my question was actually, you know, I was driving towards to the point that while what you have done is good for the current business, but given the low capacity utilization, does it really make sense to think for the 10 million capacity now?

Mr. Deepak Sogani: That is a fair question, I think. Clearly, as we said, earlier on in the call, we are watching the market conditions very carefully. Obviously, we believe that there is a significant long-term growth story in the cement sector, so it is not about the fact that you know the capacity is not going to get acquired, it is just the timing aspect of it.

Mr. Rakesh Arora: Correct.

Mr. Deepak Sogani: As far as the timing is concerned, we are watching the markets very closely. Initially, we wanted to, you know, kind of put up the 10 million tonne in the accelerated manner, but now we may actually phase it out over the next 2 to 4 years. That is how we may end up doing it.

Mr. Rakesh Arora: And finally sir, if you can save us the calculations, what is the EV per tonne that you have done this deal on?

Mr. Puneet Dalmia: I think those numbers, you know, have different calculations for different people. Depending upon how you value Dalmia Cement Ventures Limited. We believe that there is significant value in the projects that we have incubated and some people would like to do a calculation on EV per tonne on sales, some people would like to do EV per tonne per capacity. Some people give us full credit for our stake in OCL. Some people want to give prorata credit. So, I think we will leave the calculations to you. I think that is all we can share at the moment.

Mr. Rakesh Arora: Fine.

Moderator: Thank you very much sir. Next, we have Mr. Jinesh Gandhi from Motilal Oswal.

Mr. Jinesh Gandhi: Hi sir, and congratulations for getting an investor. Sir, my question is on your capex plans, primarily just wanted to clarify, this 10 million tonnes, we will investing about 4,500 crores based on the current capex requirement, right?

Ms. Nidhi Aggarwal: Yes, that is right.

Mr. Jinesh Gandhi: And this is excluding any captive power?

Ms. Nidhi Aggarwal: Yes.

Mr. Jinesh Gandhi: Okay, and on the captive power, would we be putting captive power or that is still under consideration, I mean, I know since nothing is finalized that would be difficult to answer, but....

Ms. Nidhi Aggarwal: On a long-term basis, yes, we would ideally want to have captive power plant.

Mr. Jinesh Gandhi: But that would be going in Dalmia Power Ventures.

Ms. Nidhi Aggarwal: Right.

Mr. Jinesh Gandhi: Okay, so, in Dalmia Power Ventures, we currently have 72 MW of captive power.

Ms. Nidhi Aggarwal: Right.

Mr. Jinesh Gandhi: And for 10 million tonnes, we will be requiring what, 120 or 140 MW of new captive power.

Ms. Nidhi Aggarwal: Absolutely right.

Mr. Jinesh Gandhi: And so capex on captive power would be again closer to 500 to 600 crores depending on what configuration we put in.

Ms. Nidhi Aggarwal: And at what point in time we put in.

Mr. Jinesh Gandhi: Obviously, yeah, so our total capex requirement in all would be closer to 5,000 crores including captive power at Dalmia Bharat Enterprise Limited.

Ms. Nidhi Aggarwal: In DCBL.

Mr. Jinesh Gandhi: DCBL, right. Okay, and to understand the funding of this 4,500 crores, actually I was a bit late when you are discussing this, so it is 1:2 debt equity is what we are looking at?

Mr. Deepak Sogani: Yeah. The debt equity for our new projects is actually 70:30.

Mr. Jinesh Gandhi: Right, okay, and equity portion largely would be funded by this 750 crores which we have got in?

Mr. Deepak Sogani: Yeah, that is true, partly from that, partly from...

Mr. Jinesh Gandhi: From the internal accruals.

Mr. Deepak Sogani: Yeah, yeah.

Mr. Jinesh Gandhi: Okay, and apart from this, over a longer period, do we plan to merge OCL into Avnija or that way. Are we thinking on this lines or?

Mr. Deepak Sogani: We have a stake in the OCL company and that is where it will be worked closely together, and it belongs to the same group. I think between the two of us, we cover the South and the East footprint providing solidity to each other.

Mr. Jinesh Gandhi: Okay, let me put it this way. Does Dalmia and OCL have operating synergies as of now or that is what we will be targeting over the next few years.

Mr. Puneet Dalmia: Yeah, I think we are leveraging our operating synergies, you know, already. We have a commercial team which is trying to put the common purchasing power together.

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: Standardize the rate card for common items. We have also created a technical committee which will transfer best practices from one plant to another.

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: So, I think the operational synergies are starting to benefit both groups from this association.

Mr. Jinesh Gandhi: Okay, okay, and lastly, would we be listing Avnija in near future, or that will continue to be 100% subsidiary of Dalmia Bharat.

Mr. Puneet Dalmia: It will be 100% subsidiary...not 100% anymore after this investment.

Mr. Jinesh Gandhi: Yeah, right.

Mr. Puneet Dalmia: It will be a subsidiary of Dalmia Bharat Enterprises Limited, and I think right now, we want to build Avnija to full scale before thinking of listing, so the only way to access the cement play of the group will be through Dalmia Bharat Enterprises Limited, which will be the listed entity, you know, for the group, which will hold Avnija.

Mr. Jinesh Gandhi: Okay, thanks a lot and all the best.

Mr. Puneet Dalmia: Thank you very much.

Moderator: Thank you sir. Next, we have Mr. Ajay Vohra from Enam Asset Management.

Mr. Ajay Vohra: Yeah, hi sir, congratulations on the deal. Just one clarification, current gross debt at DCBL is around 1,500 crores and say suppose this entire capex of 4,500 crores will require 3,000 crores debt, so are we saying that the peak debt at DCBL will be around 4,500 crores.

Mr. Puneet Dalmia: Peak debt at DCVL level?

Mr. Ajay Vohra: Yeah.

Mr. Deepak Sogani: 3,250.

Mr. Ajay Vohra: How much?

Mr. Deepak Sogani: 3,250.

Mr. Ajay Vohra: 3,250, so basically we are saying that we will be retiring some portion of debt from this 750 crores which we have raised.

Mr. Deepak Sogani: Yeah.

Mr. Ajay Vohra: Okay sir, okay. Thanks.

Moderator: Thank you sir. Next, we have Mr. Jai from JM Financial.

Mr. Jai: Hi, just wanted to know, the (speaker inaudible, feeble voice) does not include the capital one.

Mr. Puneet Dalmia: Yeah, it does not.

Mr. Deepak Sogani: That is right.

Mr. Jai: Can you just tell me that number as of December 31st.

Mr. Deepak Sogani: December is already there in my investor presentation.

Ms. Nidhi Aggarwal: Jai, I will share it with you. It is already there in the restructuring presentation. Hello?

Mr. Jai: Yeah, and just wanted to know the 500 crores immediate investment of equity at Avnija level. What is the stake that has been transferred at that?

Mr. Deepak Sogani: I think what we have said is that around you know 750-crore deal for around 20% dilution, Jai, that is what we will be able to share. We are bound by certain confidentiality agreements and we will not be able to share a whole lot, that is where it is.

Mr. Jai: Okay fine, thank you very much. Bye.

Mr. Deepak Sogani: Thanks.

Moderator: Thank you very much sir. Next, we have Mr. Hussain from CRISIL Research.

Mr. Hussain: Yeah, hi. It is like we are hearing news that GDP to cement multiple is changing from 1.2 to 1.5, so any color on that like what is changing, any structural changes coming in the industry. It is because capacities are increasing at 15% to 20% when the demand is increasing at 10%, so any structural changes in the industry?

Mr. Puneet Dalmia: It still remains to be seen, but if we look at investment-led GDP growth, where infrastructure is a big part of the spend, let us say India has been investing about 4% to 5% of its GDP on infrastructure compared to China of about 10% odd. So, if the investment in infrastructure goes up, our belief is that the multiplier of cement demand to GDP growth will be closer to 1.5 to 1.6x. So, if the infra spend actually starts getting into 8% to 9% of GDP, I think we can expect a structural change. However, having said that, we think the capex cycle in several infra segments is coming back. There is big push for road development in this country. There is a big push to get power plants, you know, commissioned and getting more power capacity to market, hydro projects, thermal projects, etc. So, I think overall we are seeing that you know there is a lot of commitment to infra investments going forward, and I think if that continues to happen, we can see positive outlook for cement demand, but will it be about 10% to 12% or will it be 15%, I think that remains to be seen.

Ms. Nidhi Aggarwal: Hello?

Mr. Deepak Sogani: We have time for last couple of questions, so if there are any, you know..

Moderator: We are not getting any response from Mr. Hussain. Shall I move on to the next question.

Mr. Puneet Dalmia: Yeah please.

Mr. Deepak Sogani: Also, if you can just announce that you know, maybe, we had scheduled about half an hour, so only last 2 to 3 questions on the matter, that would be great.

Moderator: As of now, I have only 3 more questions.

Mr. Deepak Sogani: Okay, thanks.

Moderator: I am going to pick up the lines, give me a moment. Next, we have Himan from Eight Capital.

Mr. Himan Bimani: Good evening sir. Congratulations on the deal. Just to reiterate on the net debt figures. If I am correct, the net debt as on December 2009 would be 1,547 crores at DCBL?

Mr. Deepak Sogani: Sorry?

- Mr. Himan:** The net debt at the DCBL level will be 1547 crores.
- Ms. Nidhi Aggarwal:** For the business, it was 1547 crores as of December end.
- Mr. Himan Bimani:** Yes, and can you please share the net debt levels at OCL.
- Ms. Nidhi Aggarwal:** Okay.
- Mr. Deepak Sogani:** Around 450 crores is the gross debt, the net debt will be close to 100 odd crores.
- Mr. Himan Bimani:** 100 odd crores and this would be....
- Mr. Deepak Sogani:** 150 crores.
- Mr. Himan Bimani:** Then, this would be inclusive of the working capital loan?
- Mr. Puneet Dalmia:** Sorry, the net debt in OCL is about 450.
- Mr. Himan Bimani:** 450 crores, but it includes the working capital loan or is it long-term loan only?
- Ms. Nidhi Aggarwal:** The 450 number is not net of working capital, that includes working capital.
- Mr. Himan Bimani:** Okay, okay, thanks a lot.
- Moderator:** Thank you very much sir. The last question comes from Mr. Jinesh Gandhi from Motilal Oswal.
- Mr. Jinesh Gandhi:** You mentioned that your net debt as of December 31 was about 850 crores and that is after factoring in for 750 crores of infusion, right?
- Ms. Nidhi Aggarwal:** Right.
- Ms. Nidhi Aggarwal:** Right, for the cement business.
- Mr. Jinesh Gandhi:** The 750 crores is the same, the KKR thing.
- Ms. Nidhi Aggarwal:** Yes.
- Mr. Puneet Dalmia:** Yes.
- Mr. Jinesh Gandhi:** Okay, we are considering for that also as a part of equity investment for the 10-million tonne plant right?
- Ms. Nidhi Aggarwal:** That is not yet started right, so I am talking about 31st December, 2009, on a proforma basis.
- Mr. Jinesh Gandhi:** Okay, okay, got the point. Okay, thanks.

Moderator: Thank you very much sir. At this moment, there are no further questions from participants. I would like to handover to Ms. Nidhi Aggarwal for final remarks.

Mr. Puneet Dalmia: So, I just want thank all of you for joining us on this call. Thank you for your good wishes, and I think this is a significant milestone. We wanted to celebrate it together with you. I will handover the floor to Nidhi.

Ms. Nidhi Aggarwal: Thank you all for coming in and participating. If you have any further questions, you are most welcome to reach out to us anytime. Thank you and good day.

Moderator: Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
