
Dalmia Cement (Bharat) Ltd.**Results for the quarter ended Sept 30, 2007****CONFERENCE CALL****OCTOBER 29, 2007 1200 hrs****Moderator**

Good afternoon ladies and gentlemen. Welcome to the Dalmia Cements conference call hosted by Alchemy Shares and Stock Brokers. I am Triveni, the moderator for this conference. 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 Mr. Urmik Chhaya. Thank you, and over to you sir.

Urmik Chhaya

Thank you ladies and gentlemen for participating in the conference call of Dalmia Cements hosted by Alchemy Shares and Stock Brokers. Dalmia Cement is represented by Mr. Puneet Dalmia (MD), Mr. Somnath Patil (Group CFO) and Ms. Nidhi Agarwal (Head, Investor Relations). I request Mr. Puneet Dalmia to please comment on the results, then we will have the Q&A. Please take over Sir.

Puneet Dalmia

Thank you Urmik, and thank you gentlemen for joining this call. This quarter was one of the best quarters in the history of Dalmia Cements. Our gross sales turnover was about Rs406 crore. It was up 45% year-on-year. Our EBITDA was about Rs155 crore, which was up 67% year-on-year. Our profit after tax was Rs83 crore, which was up about 60% year-on-year. So this has been the best quarter in the history of the company.

There are primarily 2-3 reasons which I want to highlight which have led to this performance. The first is that there was volume growth in our cement business and as compared to the last year July to September, we sold 8.5 lakh tons instead of 6.8 lakh ton. So there has been 25% volume growth in the cement business and this was because of our brown field expansion at Dalmiapuram, which came in last year. It was in the state of ramping up in financial year '07, but this year we have almost ramped it up fully. So it was partly volume which contributed to this and partly we have seen a very healthy pricing environment in the southern region. We are seeing very robust demand growth in the region because of which prices are also at a very healthy level. So largely it was pricing and volume driven. I just want to highlight our EBITDA per ton in the cement business. Our EBITDA per ton in this quarter was Rs1600/ton and on a year-on-year basis this has grown by about Rs200@. So volumes and prices have both contributed to this.

Please Note (@ Rs. 600 and not 200 as was inadvertently said on the call)

We continue to build our new greenfield plants in Cudappa and Ariyalur. Our Cudappa facility is under construction. We have got all the mines, and land acquisition is completed, construction has started since February and we expect the Cudappa plant to

be commissioned by 30th September 2008. For our Ariyalur facility, which is one hour away from Dalmiapuram also, land acquisition has been completed and construction has started. We expect the commissioning by 30th March 2009. So in the second half of next year, we are going to have additional 4.5 million tons commissioned and the total capacity of the company will go from 3.5 million tons to 8 million tons.

The third thing that I want to highlight is that we have another group company OCL, in which the promoters of Dalmia Cement acquired a stake in April 2005 and recently OCL is going through a restructuring exercise and one of Dalmia Cement's subsidiaries is merging into the cement and refractory business of OCL.

So, OCL after this restructuring is complete, will become cement refractory company in which Dalmia Cement, post the merger of Dalmia Cement (Meghalaya) Limited, will have 21% of fully diluted share holding. We have already received approval from Guwahati High Court and the matter will come up for hearing in the Orissa High Court sometime in the month of November and we hope that this transaction will get completed before the end of this financial year. And by March 2008, Dalmia Cement should be a significant share holder in OCL India Limited. So that is the growth plan and the highlights of the cement business.

In our sugar business, we commissioned two new plants last year and this year, we have seen partial ramping of our cogeneration plant. Our sugar strategy has been to have a fully integrated sugar complex as apposed to just the sugar business, so we have made 50% of our investment in sugar and 50% of the investments have been made in power and ethanol. We have already started running our cogeneration plants in this quarter and the ramping up is going quite well, although the season is going to start in November. And at that time, we will ramp up the sugar production facility fully but we face a challenging price environment with respect to sugar prices but we believe that our business model, which is integrated model, provides hedge with an energy play which is embedded within the sugar play and over a period of time it is a more robust earnings model. So those are the numbers and if you have any questions, we are happy to take those.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. The participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their question 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. Jay Arshad from ASK Securities.

Jay Arshad

Good afternoon sir, Jay Arshad from ASK securities. Congratulations to you for posting a good set of numbers. Sir, I have a few questions. You mentioned a brown field expansion at your existing plant. Can you tell us what is the exact million ton capacity to be added through it?

Puneet Dalmia

We added about 2 million tons of additional capacity. So our total installed capacity now is 3.5 million tons and this quarter we produced about 8.5 lakh tons.

Jay Arshad

Okay and sir what was the blending ratio this quarter?

Puneet Dalmia

Our cement to clinker ratio is about 1.4, the PPC percent to total cement is about 80%, but we expect this to go 90% by Q4 of this year. We think we should be able to produce about 9 lakhs tons per quarter from the existing two lines at Dalmia Cement.

Jay Arshad

Okay and sir what is the state wise breakup of your sales?

Puneet Dalmia

We roughly sell about 65% in Tamil Nadu, about 30% in Kerala, and 5% in Karnataka.

Jay Arshad

Okay and sir what was the exact realizations per ton this quarter, gross and net?

Puneet Dalmia

We track two realizations, one is at the dealer level and another is at the ex-factory level.

Jay Arshad

Sir ex-factory will be more ...

Puneet Dalmia

At the dealer level the number is about 4680 and at the ex-factory level the number is about 2900.

Jay Arshad

Okay, thank you sir.

Moderator

Thank you very much sir. Participants who wish to ask a question are requested to press *1 on your telephone keypad. The next question comes from Mr. Jinesh Gandhi from Motilal Oswal.

Jinesh Gandhi

Hi sir, good afternoon. My question is on the pricing scenario which you envisaged for next one year in your key markets of south. In the wake of capacities which are coming in, do you see any major price improvement from here on and/or on the other side do you see any pressure on pricing based on new capacities?

Puneet Dalmia

Actually we are seeing a very healthy demand growth environment and we are seeing that most plants are running at almost 100% capacity utilization. So as new capacities come in, we feel that demand growth will continue to be positive and the industry's behavior will continue to be disciplined. So we do not see any major pressure on prices over the next 12 months. In fact some of the projects are also running behind schedule. So, exactly when the plants get commissioned and by when they are able to ramp up is another question which we have to wait and watch as the next year unfolds. But overall, I continue to see some more upside in prices from the current level.

Jinesh Gandhi

Okay, and sir secondly, my question pertains to OCL, I missed the number which you mentioned. What would be the Dalmia Cements final holding in OCL Cement?

Puneet Dalmia

Dalmia Cement will hold 21% of the fully diluted equity of OCL after this transaction is completed.

Jinesh Gandhi

Okay, so as a result, we would not be merging it on line-to-line basis or consolidating it on line-to-line basis?

Puneet Dalmia

As of now, I think I can just comment on the share holding that Dalmia Cement has, but over a period of time I think we have to exactly see how we restructure our entire group because Dalmia Cement is cement and sugar company and OCL will be a cement and refractory company. So one of the factors which we always think about is how to unlock value and give better flexibility for share holders to invest. So we are keenly examining possibilities of creating pure play companies over the long term. This has to be looked at from a tax angle and the other approval angle from the regulatory standpoint. So, I think we are examining all those issues closely, but at this point in time, I can't comment more on this.

Jinesh Gandhi

Okay. In sugar, how do you see pricing environment shaping up, I mean pricing has been one area which has been hurting us a lot, you see any relief specially in terms of your sugarcane pricing, you feel some softening of sugarcane pricing?

Puneet Dalmia

I think this has been a industry issue for the last 3-4 months and I think my comment on the sugar prices is that the demand supply equation does not look very favorable for the next 18-24 months for sure, but the government has followed a fixed input price model for a very long time and cane arrears are already starting to mount and it may be a very, very difficult situation this year, if the sugarcane prices are not corrected. So, at this point in time, there is an intense dialogue going on between all stake holders in this industry, along with the government and the farmers and I hope that we are able to reach a position which is more sustainable and stable, because this volatility does not help anybody. I know that in UP, where all the three of our integrated complexes are, farmers are supplying cane to gud and khandsari manufacturers at about Rs65 a quintal, which is about 60% of the state advised price. So, I think the government is actively examining this from a sustainability and stability point of view, but finally what outcome happens is anybody's guess, but all I can say is that I am positive and hopeful that we will come up with a more rational pricing for sugarcane.

Jinesh Gandhi

Okay, and Sir at this current juncture, given that your sugarcane cost is high and sugar prices are out of your control, I mean from theoretical point of view, would it make sense not to produce sugar rather than producing it at a loss?

Puneet Dalmia

I think for a standalone sugar company, it doesn't make sense to produce but for an integrated company, there is still positive contribution, if you have fully grown up power asset attached to your sugar business and you have a firm power purchase agreement with your customers. There is marginal contribution but is positive. But for a pure play sugar company, the marginal contribution is negative.

Jinesh Gandhi

Okay, and sir lastly on ethanol, have we started ethanol production?

Puneet Dalmia

We have started production, but what we need to do is that we have to participate with our customer companies. We are still working on getting the qualification sorted out for participating in the tender with oil companies.

Jinesh Gandhi

By when do we expect any revenue contribution from ethanol?

Puneet Dalmia

I think it will basically happen next year.

Jinesh Gandhi

Okay.

Puneet Dalmia

Because full production will happen during the sugar season as molasses gets produced.

Jinesh Gandhi

Right, okay.

Puneet Dalmia

But it is a pilot facility that we have right now. We have about 80,000 liters per day of facility, and as we gain more confidence and understand this business better, we can invest more in our captive ethanol production. But we have not yet fully integrated our ethanol production with the sugar business.

Jinesh Gandhi

Okay sir, thanks for taking my questions.

Puneet Dalmia

Thank you.

Moderator

Thank you very much sir. We have next on line Mr. Manish Goel from Envision Capital Advisor.

Manish Goel

Hello. Manish Goel from Envision Capital Advisors. Sir, I have a couple of questions. First is a follow up question on sugar. I just want to know in terms of, if you probably have power and also start manufacturing ethanol, how does the sensitivity to the whole business model improve in terms of say, if you make one ton of sugar and if you along with it generate power and also make ethanol. How much benefit we can see in top line and bottom line?

Puneet Dalmia

Sorry, can you repeat your question once again?

Manish Goel

Basically, I want to understand, say if you are only manufacturing sugar and if you move into manufacturing ethanol as well as generate power from the same facilities, how does it improve your top line and bottom line and to what extent it reduces your sensitivity to sugar itself?

Puneet Dalmia

So, let me take the case of a pure sugar company. We basically have 22,500 tcd installed, it means we can produce 3 lakh tons of sugar per year. If we are a pure sugar company with price at where it is today, we are going to lose money making 3 lakh tons of sugar at an EBITDA level. So, I mean we will basically lose let us say one rupee a kg, so it is a Rs30 crore EBITDA loss for a pure sugar company at the current pricing levels. If we produce power and if we have a power purchase agreement signed with the customer, which we have, we can make about Rs65 crore from EBITDA from the power business. And given our current capacity of ethanol, we can make about Rs10 crore from the ethanol business. So, a minus Rs30 crore EBITDA from the sugar business becomes a plus Rs45 crore EBITDA from power and ethanol.

Manish Goel

And what kind of investments would it entail to arrive at this kind of EBITDA?

Puneet Dalmia

The investment has already been made, the investment to do this entire thing is about Rs650 crore. However, I mean the power-ethanol equation looks more stark right now because sugar business is losing money, so minus Rs30 crore to a plus Rs45 crore but if you change the pricing assumption you know then power and ethanol on a steady state scenario, which we see long term, it will contribute to about 50% of the total EBITDA from the sugar business. So, I would say that our facility in a normal scenario on a fully ramped up basis, the sugar business should be able to generate about Rs125 crore of EBITDA and the power business and ethanol business should be able to generate another Rs100-125 crore of EBITDA.

Manish Goel

This Rs125 crore of sugar profit, you are saying on what pricing?

Puneet Dalmia

Depends on the cane and sugar prices but we have an outlook in terms of where the long-term sugar and cane prices may head. So, I am assuming that we can get an EBITDA margin of about Rs4 a kg on a long-term basis.

Manish Goel

And, power, how much you can make from the current capacity of 22,500 tcd?

Puneet Dalmia

The total power generation, including off season and season, is about 79 megawatts. Of which, about 25 megawatts is self consumption, so we get about 55 megawatts of transportable power, which we can sell. From this, we can generate about 40 crore units in the best case scenario.

Manish Goel

So, you can roughly make Rs100 crore from this?

Puneet Dalmia

Yeah, that is what I said, we can make about Rs100 crore EBITDA from the power business.

Manish Goel

And for ethanol, how much you can make from, say today ethanol you have 80,000 liters per day capacity, but how much you can have say from this sugar complex?

Puneet Dalmia

We can actually make 2½ times the capacity.

Manish Goel

Okay, you can go upto 2.5X?

Puneet Dalmia

Yes.

Manish Goel

And how much money can we make from this you said?

Puneet Dalmia

I think the ethanol business at the current pricing levels which the government has set, can give us about Rs25-30 crore of EBITDA on a fully build up basis. But currently, we have invested only 80,000 liters per year so that is going to give us Rs10-12 crore.

Manish Goel

And how much of incremental investments you would require for having this kind of earnings from power and ethanol? What kind of additional investments you would have made?

Puneet Dalmia

Power, we are fully invested.

Manish Goel

Yeah, but how much is it? Like how much would you have invested into power and ethanol, say incrementally.

Puneet Dalmia

So, we have invested total about Rs650 crore, out of that Rs325 crore has gone into power and ethanol.

Manish Goel

Okay, sir I have couple of questions more. One was on the additional capacity you mentioned in your opening remarks that you have two capacities coming up, would it be possible to please repeat?

Puneet Dalmia

We are building two new greenfield plants and expanding our southern footprint. One of these plants is in Andhra Pradesh in Cudappa, which is south Andhra Pradesh. The construction is in full swing there and we expect the commissioning to be by 30th September 2008.

Manish Goel

And what would be the capacity for this?

Puneet Dalmia

2.25 million tons. We are building exactly on the same lines in Tamil Nadu also, which is an hour away from our existing facility. It is a greenfield plant in a place called Ariyalur, of 2.25 million tons and the expected commissioning is 30th March 2009.

Manish Goel

And how much we are investing into each of these plants?

Puneet Dalmia

In both these plants, put together, we are investing approximately Rs1400 crore.

Manish Goel

Do we have limestone mines, say for the first plant you said you have got approvals, and for the second one?

Puneet Dalmia

For the second one also we have got land, and we have got the necessary land approvals.

Manish Goel

Okay sir, and sir my third question is on your subsidiaries. Probably I was just going through your past announcements, there is one subsidiary called Eswar Cement, which has 400 acres of land and has adequate limestone. So, this was to be merged. Was it to be merged with OCL or with the Dalmia Cement?

Somnath Patil

This Eswar Cement acquired land for the purpose of Cudappa project at Andhra Pradesh. So, at this point of time, it is a separate company but we want to merge it with the parent company, which is Dalmia Cements and not OCL. So we have started the process.

Manish Goel

Okay, and there is also one subsidiary Hemshila Properties, so is it that we have some properties lined up in subsidiaries and any plans of development?

Somnath Patil

No, we don't have any plans as such. You know at some places you have limitations of acquiring land under one name, there are limitations imposed by state governments. So in those cases, we need to acquire some portions of land under separate companies, our subsidiaries, and thereafter of course these lands gets transferred to the main company.

Manish Goel

Okay, and sir how are these new capacities to be funded sir?

Somnath Patil

Out of Rs1400 crore, approximately Rs500 crore will be funded from internal accruals and we propose to raise around Rs900 crore of debt for this, which is in the advanced stages of being tied up. Post completion of this project, our debt equity will be just about 1.35 to 1. We will keep that at a very comfortable level.

Manish Goel

1.35:1.

Somnath Patil

Yeah, after completion of the project.

Manish Goel

Fine sir, thanks a lot. I will come back if I have more questions. Thanks a lot.

Somnath Patil

Thank you.

Moderator

Thank you very much sir. We have next on line Mr. Salil Desai from IDFC.

Salil Desai

Hello. Sir I had a question on cement supplies through import. TANCEM had recently issued a 1.8 million ton tender, this would be about 12% of Tamil Nadu's consumption. #1, do you see that impacting demand supply equation is any way there and by when do you see it, if at all?

Puneet Dalmia

I don't see major imports happening in any part of the country, because most of the cement in this country is sold through retail distribution channels and retailer basically sell cement which is 20-30 tons a month and wholesalers sell about 800-1000 tons a month. So, for getting any large scale import through you need access to a large distribution channel, point #1. Point #2 is even the logistics costs and infrastructure handling facilities in India are not conducive to large scale imports. Imports can only be done by large customers who are willing to go through the full headache of doing the entire procurement themselves and managing the shipping logistics to their plants. So, I am seeing a lot of news in the media regarding imports from Pakistan and TANCEM tender and all that, but on the ground, the reality is that none of this is actually happening and then none of this is material.

Salil Desai

Alright, okay thank you sir.

Moderator

Thank you very much sir. The next question comes from the Mr. Ruchit Mehta from HSBC.

Ruchit Mehta

Hi! Good morning sir, and congratulations on a great quarter. Actually I just missed out on the volumes figures, if you could repeat that for me please?

Puneet Dalmia

We sold about 8.5 lakh tons this quarter.

Ruchit Mehta

And the same figure for the previous year?

Puneet Dalmia

Previous year was 6.8 lakh tons.

Ruchit Mehta

And just your debt figures, if you can just update us what the current debt levels are in the company?

Puneet Dalmia

Our current debt levels are we have long-term loans of about

Somnath Patil

Total debt is around Rs1200 crore as of 30th September.

Ruchit Mehta

Okay, and any cash or investments on the book?

Puneet Dalmia

About Rs600 crore.

Ruchit Mehta

Rs600 crore?

Puneet Dalmia

Yeah.

Ruchit Mehta

So, you just have a net debt of about Rs600 crore.

Puneet Dalmia

That is right.

Ruchit Mehta

Any other working capital or deferred sales tax loan?

Puneet Dalmia

That is all included in this Rs1200 crore. Of which the long-term borrowing is about Rs900 crore, and Rs300 crore would be working capital and sales tax benefits.

Ruchit Mehta

Okay, what is the peak debt for the company because you will be raising almost Rs900 crore of additional debt, so post expansion basis at the peak level what will be the debt level of the company?

Somnath Patil

Peak level debt would be around Rs1800 crore. But that will be when the project is under implementation, and when it is fully complete of course the debt equity will be 1.35:1.

Ruchit Mehta

Okay, and in terms of the opening remarks, you said that there are some capacities getting delayed, in the sense that are you seeing that probably the cycles for pricing are getting elongated and demand continues to be robust?

Puneet Dalmia

Yes, we are seeing robust demand and cement demand in the country is growing at about 10%, although we believe that in the long-term scenario, we build our projections on just a sub 10% basis. So we may see quarter-to-quarter surprises or we may see spikes in a particular quarter, but when we are planning for investing in a new capacity, we have to see very long-term trends of demand that we are comfortable with.

So, we build our models based on about 9–9.5%, although we can get surprises wherein for a few years or a few quarters, the demand is in the teens or we sometimes may see demands at like 6-7% also.

So, that is a month-to-month, quarter-to-quarter seasonality, but our long-term outlook is just sub 10%. The second point is that on the capacity side, we are seeing incubation time to increase very significantly, you know which means land acquisition and getting mining permits is taking much longer than it used to take earlier. Earlier you know, when projects were under drawing board, incubation was about a 12 months process – where from the drawing board to getting all clearances, it used to take 12 months. But today we are seeing that process elongated to almost 24 months and sometimes even 30 months. So, once you start construction, we are seeing constraints in two areas; one, we are seeing constraints in delivery of grinding equipment and gear boxes, and we are also seeing constraints in ability to mobilize resources through civil contractors. So, construction time which was 14-18 months is now easily 24 months.

Ruchit Mehta

Has that affected your supply? Have you seen any delays in supplies?

Puneet Dalmia

We are facing challenges as I told you on these two issues, which is grinding equipments and gearboxes. But we are making all efforts to make sure that we are able to live up to the time lines that we are promising to the markets. Definitely not an easy environment, but we are making all efforts to make sure that we are able to deliver based on these times.

Ruchit Mehta

How delayed could expansion can be, if you are talking of March 2009, would there be about a 3-month delay or something like that?

Puneet Dalmia

Based on our current visibility, we know at what stage of the manufacturing line our order is, so we don't foresee delay beyond March 2009, but if at all I think it should not be more than a couple of months.

Ruchit Mehta

Okay, and finally on demand, do you see demand accelerating once this political issue and projects such as airports modernization and all that kick off? Do you see demand actually accelerating from current levels of around 10%?

Puneet Dalmia

I am seeing that in some states like Andhra Pradesh, there is a surge in demand. I am seeing this partly in Karnataka also but I think for us to be comfortable, this has to be a long-term trend line. We have to see more of this and we have to believe that all over India projects can go as fast as people promise because real estate companies are also making huge commitments to markets, infrastructure companies are also making huge commitments to the market and there is pre-election build up that can accelerate demand. But I think, as of now, just to be able to convince myself that this is a long-term trend line, it will take lot more conviction than what we see on the ground right now.

Ruchit Mehta

Okay, thank you.

Moderator

Thank you very much sir. Participants who wish to ask a question are requested to press *1 on your telephone keypads. Participants are requested to press *1 on your telephone keypads now. We have next on line Mr. Radhakrishnan from India Infoline.

Radhakrishnan

Hello sir. Can you tell what the capacity expansion at OCL is?

Puneet Dalmia

Yes. We currently have a installed capacity of 2 million tons. We are constructing another 2 million tons, of which there is one clinker line at the existing location at Rajgangpur, and we are building a grinding unit near Cuttack. This grinding unit is likely to get commissioned by March or April and the clinkerization unit is likely to get commissioned by June or July in 2008. So, the total capacity, after this is completed, will be 4 million tons in OCL.

Radhakrishnan

Thanks.

Moderator

Thank you very much sir. We have next on line Mr. Jigar Tavla from Enam Holdings.

Jigar Tavla

Sir, I just wanted to know what the warrants outstanding are and what will be our equity post dilution?

Puneet Dalmia

I am converting the warrants into Rs2 share equivalents, so the number of additional Rs2 shares, which will be issued, will be about 3.8 crore and the total number of shares post warrant conversion will be 8.1 crore shares of Rs2 each.

Jigar Tavla

Okay, and what is the conversion price of the warrants?

Puneet Dalmia

On a face value of Rs2, per share it will be Rs24.

Jigar Tavla

So, the existing warrant holders will have to pay Rs24 per share?

Puneet Dalmia

Per share, but each warrant is actually based on a Rs10 share, so it is 24 multiplied by 5, now.

Jigar Tavla

Okay, thank you sir.

Moderator

Thank you very much sir. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Urmik Chhaya for final remarks.

Urmik Chhaya

Thank you for participating in the call. Thank you Mr. Dalmia, thank you Mr. Patil, thank you Ms. Aggarwal. Thanks a lot.

Puneet Dalmia

Thank you Urmik. Thank you very much for participation and facilitating the call.

Urmik Chhaya

Thanks.

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.