



Dalmia Cement Limited
Quarter Three Results Conference Call
January 25, 2008

Moderator:

Good evening Ladies and Gentlemen. I am Sandhya, the moderator for this conference. Welcome to Dalmia Cement's conference call hosted by Alchemy Shares and Stock Brokers. 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 joining the conference call. We have with us Mr. Puneet Dalmia, MD; Mr. Somnath Patil, CFO; and Ms. Nidhi Aggarwal, Head, Investor Relations. Mr. Dalmia, please take over, sir.

Puneet Dalmia:

Thank you and good evening to all of you. I want to start by welcoming all of you to this conference call. Q3 has been the best quarter in the history of the company in terms of profitability. Our net sales are Rs363crore, up 57% year on year, our EBITDA for the quarter is Rs194crore which is up 81% year on year, and our net profit has crossed Rs100crore for the first time and is Rs113crore, up 74% year on year. We are declaring an interim dividend of 125% compared to 100% last year. We have significantly increased the payout because last year we had declared 100% dividend on a lower capital base of 4.3 crore shares, and this year we are declaring 125% dividend on a higher capital base of 8.1 crore shares. The board of directors had called for conversion of outstanding warrants to finance the ongoing capital expansion in the company; the money has been received and shares will be allotted in this quarter. So, the fully diluted share capital of the company is now 16.2 crores or 8.1 crore shares. The basic theme in the quarter was that our cement business witnessed strong demand growth. For the first nine months, the southern region (where we operate) witnessed demand growth of about 9.4%, year on year, as compared to about 9% for the rest of the country. We also saw a very steady pricing environment in our addressable markets of Tamil Nadu and Kerala despite the monsoon season. So, overall, profitability in the cement business, year on year, has been very strong due to strong demand and steady prices. We did our annual maintenance shutdown this year, so our volumes were lower than last quarter but if we were to look at a yoy comparison, our sales volume in this quarter were 743,000 tonnes as compared to 663,000 tonnes for the corresponding quarter of the last year. Our geographic sales mix has been more in Tamil Nadu, so if I look at a yoy comparison, our geographic sales mix has gone up from 53% in Tamil Nadu in the last quarter to 60% in Tamil Nadu in this quarter. Our cement-clinker ratio has also increased from 1.31 to 1.37. Our endeavor has been to increase this further, going forward, because we are transferring our product mix from OPC to PPC, so that we can stretch assets and maximize production in the current booming environment. We also saw our sugar plants ramping up. We had invested about Rs700crore in our sugar business last year and in November 2007, we had started crushing in all the three plants. We are very excited to share that the crushing and the ramp-ups have gone on very well. Our sugar plants are running at almost close to 100% capacity utilization. Our power plants are running at almost 95% PLF, and we have also started production in our ethanol plant. In

this quarter, we only got about three days as we started the plants one month later. Our scheduled start was on 7th November but we started the plant on 26th November due to fluid regulatory environment related to cane prices. The company was engaged in a dialogue with the government through our association and representing our case in the Allahabad and Lucknow high courts, regarding industrys' view on cane prices. So because of this delay in starting the plant, in this quarter, we only got 35 days. So, in the last quarter of this year, we expect the sugar business to contribute significantly to sales of the company. From this quarter, we have also spruced up our earnings release. Many people had asked us a question about segmental analysis, and we have incorporated segmental analysis in our earning release which will be sent to you in the next 24 hours. For this quarter, at net sales level, cement contributed 72% to our sales, sugar contributed 23%, and other businesses contributed 5%. The corresponding numbers for 3QFY07 were 78% cement, 16% sugar, and 6% others. So, we are very excited that this has been the best quarter in the history of the company – driven by a robust pricing environment and scale up in volumes in both cement and sugar businesses, and we are continuing to invest in our core businesses, and we hope that we will be able to leverage on the current boom in industries with our enhanced exposure in terms of Capex in both these businesses. If you have any questions, please let me know.

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, kindly press *1. First question comes from Mr. Ruchit Mehta of HSBC. Over to you sir.

Ruchit Mehta:

Hi, good evening, and congratulations on your results. I was just wondering if you could give us an update on your expansion and at what stage it is, currently.

Puneet Dalmia:

We are investing about Rs1400-1500crore to expand our capacity in the markets that we serve. We are building one plant in Southern Andhra Pradesh in Cuddapah of 2.25 million tones capacity and we are building another plant in Ariyalur which is in Tamil Nadu, about an hour away from our existing facility which is also of 2.25 million tonnes. So, we expect this entire 4.5 million tonnes to come on stream by the end of financial year 2009, and both these projects are on schedule.

Ruchit Mehta:

Okay, both will come into production at the same point in time?

Puneet Dalmia:

No. We expect the Cuddapah plant to come in three-four months before the Tamil Nadu plant.

Ruchit Mehta:

Okay, and how are we funding this Rs1400crore odd?

Puneet Dalmia:

We are funding through a mix of internal approvals and debt. We are going to take about 800-900 crores of long-term loans to fund this expansion, and the rest will be funded through internal accruals.

Ruchit Mehta:

Okay, what is your current debt on the balance sheet, long term and short term everything put together?

Puneet Dalmia:

As of December 2007, our gross debt on the balance sheet was Rs1400crore.

Ruchit Mehta:

Okay, and you would have some corresponding cash balances.

Puneet Dalmia:

Yes, our net cash and investments are about Rs800crore.

Ruchit Mehta:

Rs800crore?

Puneet Dalmia:

Yes.

Ruchit Mehta:

So, will you have this additional Rs800-900 crore that would be in addition to this Rs1400crore, where you may end up with a peak debt of Rs2200crore or would it be lesser?

Puneet Dalmia:

It will be less than Rs2200crore.

Ruchit Mehta:

Ballpark would be 2000 crore, if I were to assume?

Puneet Dalmia:

Actually, it may be close to Rs1800crore because part of this is also sales tax debt, so you know, the gross long term debt will not be more than that.

Ruchit Mehta:

How much will be the sales tax and the interest-free deferred one?

Puneet Dalmia:

Yes, so of this Rs1400crore, I think about Rs80crore would be sales tax debt.

Ruchit Mehta:

Okay.

Puneet Dalmia:

That is going to go in the future because our existing brown field capacity has sales tax deferrals as per the Tamil Nadu government.

Ruchit Mehta:

And when you will be actually paying this?

Puneet Dalmia:

Sorry? The sales tax debt?

Ruchit Mehta:

Yeah, which year does the payment begin?

Puneet Dalmia:

I think that is seven-eight years from now.

Ruchit Mehta:

Okay, brilliant. On the merger with OCL India, could you update us as to what is the status quo because you will be acquiring 20% odd through Dalmia Meghalaya, if I am correct?

Puneet Dalmia:

That is right. The scheme has been approved both by the Orissa and Guwahati high courts.

Ruchit Mehta:

Okay.

Puneet Dalmia:

We have also received shareholder approvals and lender NOCs and stock exchange approvals for the scheme, and I think the shares are going to be allotted in the January to March quarter.

Ruchit Mehta:

So, you will own 20% of the company?

Puneet Dalmia:

Yes.

Ruchit Mehta:

What equity capital will that company have in the end?

Puneet Dalmia:

Dalmia Cement will hold about 21% of the fully diluted capital of OCL India.

Ruchit Mehta:

Which should be, how much?

Puneet Dalmia:

OCL will have 5.67 crore shares of Rs2 each.

Ruchit Mehta:

5.67 crore shares of Rs2?

Puneet Dalmia:

Each.

Ruchit Mehta:

Okay. Would you also be taking corresponding stakes in the steel and the real estate entity of OCL?

Puneet Dalmia:

No. This stake will be held only in the cement and refractory businesses of OCL, and the shares will be allotted post the completion of demerger. We will not get any stocks in the real estate and sponge iron divisions.

Ruchit Mehta:

But would the promoters of OCL have any interest in the other two entities? What is their holding in OCL?

Puneet Dalmia:

Sorry?

Ruchit Mehta:

Would the promoters of OCL, sorry Dalmia also have interest in the other two entities of OCL?

Puneet Dalmia:

Yes. The existing shareholders of OCL that is a mirror demerger, so all existing shareholders of OCL will get pro rata shares in the sponge iron and real estate entity. The shareholders of Dalmia Cement (Meghalaya) Ltd, that is Dalmia Cement (Bharat) Ltd., a 100% subsidiary, will get shares of the residual OCL which is the cement and refractory.

Ruchit Mehta:

But can you merge these cement entities with yours or you will only have it as a 20% associate company?

Puneet Dalmia:

As of now, it will be an associate company.

Ruchit Mehta:

And no plans to further increase the stake in that entity.

Puneet Dalmia:

Yeah, so, as I said earlier, we are evaluating all options to increase shareholder value and I cannot comment on this unless the shareholders and boards of the two companies approve.

Ruchit Mehta:

Okay.

Puneet Dalmia:

We are re-exploring all options to create shareholder value.

Ruchit Mehta:

Any idea what the real estate entity actually does because?

Puneet Dalmia:

I think it is better if that is taken up in the OCL India conference call because....

Ruchit Mehta:

Okay, that is right. Can you also comment about the issues in Tamil Nadu recently, you know, with the government trying to, you know, act belligerent and say we will nationalize. So have those sort of issues been settled and do you see now a return of pricing power in terms of being able to raise prices and is demand sufficiently higher than supply?

Puneet Dalmia:

Yes, absolutely. I think we engaged with you know, all the stakeholders in the Tamil Nadu government including the chief minister and assured that we will give some cement for the underprivileged sections of the society, at a discount to the market price, and it will be distributed through the government based on schemes that government comes up from time to time, and the government has endorsed the responsible behavior of the industry, and they have assured us that free market will be allowed to operate, and the government is not going to interfere in the pricing...they will allow the market forces to determine pricing.

Ruchit Mehta:

That is good to hear, and finally if you just comment upon your outlook. On where the sugar industry is likely to be because I believe you are a bit bearish on it for some time and now things have actually improved, so what your view based on the next 12 odd months?

Puneet Dalmia:

I think we are cautiously optimistic. The issue on cane price is still not fully settled. It is still subjudice and there is a lot of hope that it will be settled in a manner which is sustainable in the long term and which takes care of all stakeholders, so my own hope is that if we don't find a short-term solution to this issue, and there will be a long-term solution to this issue. However, the matter is currently subjudice and we are still not sure as to which way the cane pricing would head, so it could be as high as Rs125 a quintal, and it could be as low as Rs90 a quintal. On sugar prices, we are seeing a trend which is northwards. We are seeing, you know, spot trades happening at about Rs14,800 per tonne, and some futures in June and July at Rs16,000 a tonne, so we are seeing sugar prices heading north but the cane price issue still remains unresolved.

Ruchit Mehta:

o, we would still be losing money for every tonne of cane that is crushed?

Puneet Dalmia:

Not really. I think, at current price levels, we are, you know, making a positive EBITDA in the sugar product line also.

Ruchit Mehta:

Okay, so cash flows have stopped burning per se.

Puneet Dalmia:

Yes, absolutely.

Ruchit Mehta:

Okay, thank you so much.

Moderator:

Thank you very much sir. Next question comes from Mr. Jinesh of Motilal Oswal. Over to you, sir.

Mr. Jinesh:

Hi sir, can you repeat the cement sales volume numbers for the quarter and in the corresponding quarter last year?

Puneet Dalmia:

Yeah. Our cement sales volumes were 743,000 tonnes in this quarter, and in the corresponding period last year they were 663,000 tonnes.

Mr. Jinesh:

Okay, my second question is on capacity expansion. Our Cuddapah unit was expected to be operational by September 2008. So, is there any change there or it is on track?

Puneet Dalmia:

No. We are broadly on schedule.

Mr. Jinesh:

Broadly on schedule, maybe couple of months delays here or there?

Puneet Dalmia:

Couple of months here or there.

Mr. Jinesh:

Okay, likewise for Tamil Nadu? Or is it March 2009?

Puneet Dalmia:

That is also on schedule.

Mr. Jinesh:

Okay, and at the end, we will have roughly around 12 to 14 million tonnes of capacity additions in Tamil Nadu and Andhra Pradesh combined, if I am not mistaken?

Puneet Dalmia:

I don't have the numbers ready with me right now but at an overall level, we see capacity utilizations in the industry in the southern region to be range bound between 85-90%.

Mr. Jinesh:

85% to 90%.

Puneet Dalmia:

Will be capacity.....

Mr. Jinesh:

Okay, and from hereon, I mean, South has been clearly growing at much faster pace than the national average, you think there is a upside to this growth number. I mean, can there be further demand drivers from hereon as well which can take it into the next orbit of growth of around 12%-15% over the next two-three years.

Puneet Dalmia:

Yeah. My answer to that is again I am not quite hopeful that we will see demand numbers in India as the per capita consumption in India is significantly lower than any global economy that we track. However, I think the real driver for growth is going to be infrastructure, and I think I am more comfortable giving 5 to 10-year timeline of 9-0% growth. But if the infrastructure projects really take off in the country, then we might get a positive surprise of 12% to 13%. But as of now, I think we are seeing 9% to 10% growth. I am a little bit apprehensive in giving a 12% to 13% forecast long term, but I think the infrastructure story, if it really takes off, then we may add a couple of percentage points to this number.

Mr. Jinesh:

Right, right, and as far as our settlement with Tamil Nadu government, first of all what percentage of our total sales would be in Tamil Nadu now?

Puneet Dalmia:

60% of our total sales are in Tamil Nadu.

Mr. Jinesh:

Okay, and post expansion, would that go down to around 40% odd?

Puneet Dalmia:

We are adding about 2.25 million tonnes in Southern Andhra Pradesh.

Mr. Jinesh:

Right.

Puneet Dalmia:

And even Southern Andhra Pradesh supplies to northern part of Tamil Nadu, so I don't think our sales base is going to get altered significantly.

Mr. Jinesh:

Okay, so it would mean similar range?

Puneet Dalmia:

Yes.

Mr. Jinesh:

Okay, so coming to this pragmatic settlement with Tamil Nadu government, have we started supplying cement at fixed price of Rs200 per bag or it is yet to take off?

Puneet Dalmia:

No. As in industry, we have to supply only about 5% to 6% of our total production in this segment. So 95% of sales of the company are outside this segment. So, my own view is this is not going to have a significant impact on the EBITDA of any company. If you look

at our EBITDA numbers for this quarter, our EBITDA per tonne was Rs1530 a tonne as compared to the last quarter. In the corresponding period last year, it was Rs875 a tonne and if I have to give a forecast for the fourth quarter of 2008, I think that number will be higher than this number.

Mr. Jinesh:

Yeah, that is fair enough, but I just wanted to understand whether we have started supply yet?

Puneet Dalmia:

We have not started supply yet.

Mr. Jinesh:

Not yet, okay.

Puneet Dalmia:

But we are going to supply that probably by, you know, end of February or mid February.

Mr. Jinesh:

End or mid February, okay, and coming to your cement EBITDA, I mean, primarily the segmental results which you have given, the Rs103crore of cement PBDIT, is it including other income as well, right? Other income pertaining to cement division?

Nidhi Aggarwal:

Yeah, PBDIT, we have included that....

Mr. Jinesh:

Okay, so any feel of EBITDA per tonne excluding other income, Rs1500 seems to be on the higher side, obviously.

Puneet Dalmia:

Rs1532 is the EBITDA per tonne excluding other income. In fact, you know, one of the questions always asked is that the other income impacting our cement EBITDA, but as I said earlier in the conversation, we are going to give you a much more detailed look into our segmental analysis. Based on whatever benchmarking we have done so far, we are number 1 or number 2 in the EBITDA per tonne throughout the country, so we are very, very profitable, and we are going to give a deeper drill-down into our numbers from this quarter onwards.

Mr. Jinesh:

Great, that will be really helpful, I mean, that call would be much more profitable than the

Puneet Dalmia:

Yeah, absolutely.

Mr. Jinesh:

Right, and lastly.....

Puneet Dalmia:

I think we took feedback from all of you, and we continue to encourage you to engage with us to tell us how we can service the community better.

Mr. Jinesh:

Right, great, and lastly on your....I mean, since your expansion plans are in execution, are we looking to diversify into other regions after this expansion. Since we have already committed our capex and it is only year away now? Are we looking at getting into other regions from a longer period perspective?

Puneet Dalmia:

Yes, absolutely. At this point in time, we are engaged in several states within and outside South India to create future growth options, and we are in the process of acquiring land and mining leases, you know, for building further capacity and creating growth options.

I think we can talk a little bit more about that once our board approves expansion plans but absolutely, we are looking at extending our Southern footprint further. We are also looking at entering other regions. We already have an entry into the eastern region through OCL India, and we are actively looking at some of states in the Northern region.

Mr. Jinesh:

Okay, and lastly, on sugar, if you can give clarity in terms of by when do you expect some clarity about pricing?

Puneet Dalmia:

In pricing?

Mr. Jinesh:

Yeah, in pricing.

Puneet Dalmia:

I can tell you what my hope is; I don't know whether I will be right or wrong. My hope is that it should get decided before the end of this financial year because most companies are paying farmers based on their own conjectures of what is going to happen and unless this issue is clearly resolved, they are bound to be huge amount of cane arrears in the sugar industry. So, now, our hope is that we should get some clarity within this quarter. There is a hearing in the high court on 29th January, and there is a hearing in the supreme court on 12th February, so we hope that there will be some clarity once these two hearings are over. So, in Jan – Feb, I think we should hear more news flow on this item.

Moderator:

Thank you very much sir. Next question comes from Mr. J. Asher of JM Financial. Over to you, sir.

J. Asher:

Yeah, hi Sir, how are you doing?

Puneet Dalmia:

I am very well, Asher, thank you.

J. Asher:

Yeah. Sir, can you tell me the gross and the net realizations for cement?

Somnath Patil:

For this quarter, we had gross realization of Rs4900 per tonne and net realization of about Rs3000 per tonne.

J. Asher:

Okay, and sir, what is your expectation regarding volumes' number for the current year ending?

Puneet Dalmia:

We are expecting about 3.3 to 3.4 million tonnes.

J. Asher:

Okay, and Sir, for 2009?

Puneet Dalmia:

Based on our capacity expansion, I think we should do close to about 5 million tonnes.

J. Asher:

About 5 million tonnes, okay, and Sir, it is what I understand from the last con call, our Ariyalur plant is expected to be commissioned in September 2009.

Puneet Dalmia:

That was Cuddapah plant.

J. Asher:

Cuddapah plant?

Puneet Dalmia:

Yeah. September 2008.

J. Asher:

September 2008, and Ariyalur?

Puneet Dalmia:

Ariyalur was March 2009.

J. Asher:

March 2009, okay, and Sir, for FY10, what will be your guidance for volumes?

Puneet Dalmia:

FY10, I think we should do about 7-1/2 to 8 million tonnes.

J. Asher:

Okay, and Sir, regarding our 100% subsidiary Meghalaya Cement, does it have cement capacity?

Puneet Dalmia:

No. We are pursuing a project in Meghalaya, and that project along with the capital in the company has been transferred to OCL India, but there was no active capex in that company at that point in time.

J. Asher:

Okay, and that company is now transferred to OCL and against which will be.....

Puneet Dalmia:

Allotted 21% of the fully diluted equity of OCL.

J. Asher:

OCL Cement?

Puneet Dalmia:

Yes, OCL's cement and refractory business.

J. Asher:

Okay fine. Thank you very much, Sir.

Puneet Dalmia:

Because post demerger, OCL will be a cement and refractory company.

J. Asher:

Yeah, okay Sir, thank you.

Moderator:

Thank you very much sir. Next is a followup question from Mr. Jinesh of Motilal Oswal. Over to you sir.

Mr. Jinesh:

Yeah. My question was not taken. I wanted to know whether are we also involved in dialogue with state government for cane pricing and what is the clue you are getting from there?

Mr. Jinesh:

Hello?

Puneet Dalmia:

Yeah.

Mr. Jinesh:

Yeah, my question is on, whether UP sugar industry is involved in dialogues with state government for cane pricing at this point?

Puneet Dalmia:

I think we are involved in a dialogue with the state government through the industry association, and the state government is sensitive to the issue that we need to find a long term and sustainable solution to this problem. But I think ultimately it is the court judgment which is going to influence the policy the most.

Mr. Jinesh:

Okay.

Puneet Dalmia:

But I think, overall, they are very supportive in finding a long term and a sustainable solution to this issue.

Mr. Jinesh:

Right, okay, and lastly on your debt, the Rs1400-crore debt you mentioned is a gross debt, right?

Puneet Dalmia:

Yes.

Mr. Jinesh:

And post expansion it would be around.....

Puneet Dalmia:

Net debt would be about Rs600crore.

Mr. Jinesh:

And post expansion, it would be around Rs1800crore?

Puneet Dalmia:

The gross debt number, yeah.

Mr. Jinesh:

Okay, and cash of Rs800crore is post this warrant conversion.

Puneet Dalmia:

Yes, post this warrant.

Mr. Jinesh:

Thanks, okay, that is all from my side. Thanks a lot.

Moderator:

Thank you very much Sir. Participants who wish to ask questions, may kindly press *1 on the telephone keypad. I repeat, participants who wish to ask questions, may kindly press *1. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Urmik Chhaya for his final remarks.

Urmik Chhaya:

Thank you very much, the entire management team of Dalmia Cement and participants for logging in.

Puneet Dalmia:

As I said, this was the best quarter in the history of the company. Our EBITDA was RS194crore and our net profit was Rs113crore, it crossed Rs100crore for the first time. We have declared a net dividend of 125%, and we are very excited about participation in the cement and the sugar businesses, and we will continue to grow both these



businesses to be a significant player in both these businesses. So, Urmik, thanks once again for organizing this, and thank you all for participating in the conference call.

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 and have a nice day.