

Dalmia Cement (Bharat) Limited
Second Quarter Results Conference Call - Financial Year 2008 - 2009
November 03, 2008

Moderator: Good afternoon ladies and gentlemen. I am Pooja, the moderator for this conference. Welcome to the Dalmia Cement 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 now like to hand over to Mr. Puneet Dalmia. Thank you and over to you sir.

Puneet Dalmia: Let me start by wishing all of you a very happy Diwali and very welcome to our Q2 earnings call. As you all are aware that there is a major challenge in the macroeconomic environment in the world due to the financial crisis which started off in the US and spread over to the Europe and has had an effect in India, and we are facing, you know, a crisis of confidence in the macroeconomic situation in India as well. We believe that the current situation is going to continue for some time and the macroeconomic challenges despite the government taking decisive steps are likely to continue for the next 6 to 18 months. Coming to our earnings in this quarter, our gross sales were 514 crores which was up 26% year on year. Our net sales were 450 crores which was up 27%. Our EBITDA was 117 crores which was down 11% and our net profit was 40 crores which was down 51% year on year. We had our highest ever cement volumes in the quarter which was about 9.3 lakh tons. Our realizations improved by about 11% in cement, 19% in sugar. Our volumes improved 7% in cement and 17% in sugar, but despite the improvement in realizations and volume in both our businesses, we faced significant cost escalations on the energy front and hence we had a compression in EBITDA margins. So, our EBITDA has dropped because we were not able to pass on the full impact of the cost increase, you know, to the customers. Most significantly, the coal prices had gone up by around 60% year on year and that impacted the cost of fuel and power generation at the cement plant. We also believe that now the coal situation has eased off quite significantly, although it followed cooling off in oil prices. We still have some coal inventory purchased at high prices in August and September, so the full impact of this decrease in coal prices will be visible in the Q4 of this year onwards. On the overall demand front, we feel that the demand was pretty good, the cement demand was pretty good in India. The

growth was about 7.5% year on year for YTD September. We continue to see robust demand even now despite the monsoon season in our market, but we believe that there will certainly be a lag effect and this healthy demand is due to a strong construction pipeline which is being completed, but I think from Q1 of next year, we are definitely going to see some impact on demand growth and we are forecasting, you know, slower demand growth in financial year 10. Our response to the challenging macroeconomic environment is to ensure that we focus on cost very aggressively. I think we have a good opportunity on energy cost, packing cost, and even other raw materials like, you know, gypsum, so we are working hard to ensure that our cost structure comes back under control. It had gone up almost 50% in the cement business in the last six months. We are also looking at a very tight working capital management, and I think these two initiatives on, you know, controlling variable cost and managing working capital should give us an advantage in the next two quarters. We also believe that our projects are coming at the right time. We have still two quarters to go before I think there will be some slowdown in cement demand. Our Kadapa project in Andhra Pradesh is going to get commissioned in December. Our Tamil Nadu project in Ariyalur is going to get commissioned in June. We had very satisfactory and significant progress on both these projects. Relatively there will be a slowdown in demand in cement in FY10; however, I think relatively deep south is better positioned than the rest of India and the demand growth in deep south has been double digits for the last three-four years and is expected to continue. Even the degree of consolidation in deep south is far better than the rest of the country and we are relatively insulated from imports which is in sharp contrast to the northern part of the country. So, I think these two factors will offset some of the negative macroeconomic conditions that we are facing at the moment. However, taking our mind away from the short term, we still are very bullish on the long-term India story. I was recently in the US and in Europe and the economies are shrinking by about 15% and 10% respectively in both these regions. India, we are still seeing, you know, robust growth of...maybe we have revised our forecast downward, but still we are seeing 6% to 7% growth, which is very healthy, so I think long term India will emerge stronger out of this crisis and the west will emerge weaker and we are still very bullish on the long-term growth story in India, but despite being bullish on the long term, I think we have to manage short-term very carefully.

In the sugar business, we are seeing a very positive pricing environment, and we think that this year sugar business is going to do significantly better as compared to last year. Our realizations are around 17,500 per ton. We expect the all India production to be approximately 20% lower and the state advised price for the season has been announced at 140 rupees a quintal, but we don't see this as a negative as there is a shortage of cane and even though this price may be challenged by various stakeholders in the industry, the real price of sugarcane in this season was expected to be higher than the spot prices given the shortage of sugarcane. So, overall we believe the sugar business is poised to do significantly better as compared to the last two years and our three plants in UP will give us, you know, good volumes and we will be able to take advantage of a better pricing environment. Somnath, do you have anything?

Somnath Patil:

No, nothing in particular. The results if you see, two more points I would like to add. The net profit for the year has dropped significantly, that is one of the main reasons apart from the cost in the drop in treasury income. We had a treasury income of 25 crores last year same quarter, which is not recurring this year, so that is one of the reasons and also on the net profit front, our tax liability this year is slightly higher than last year, the average tax rate, mainly again because of the last year's treasury income being liable to capital gains tax, which was nil and whereas we don't any such this year. So, these are the two additional comments that I would like to make.

Puneet Dalmia:

I will open the floor 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 may please press *1. 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 their questions. To ask a question, participants may please press *1 now. First in line, we have Mr. Swapnil from Span Capital. Please go ahead sir. Mr. Swapnil, your line is open for questions.

Mr. Swapnil:

Hello...hello...

Puneet Dalmia:

Yeah.

Mr. Swapnil:

Yeah, can you please help us with the gross debt and net debt figures as on 30th September?

- Somnath Patil: Yeah, the gross debt figure was 2,028 crores.
- Mr. Swapnil: 2,038 crores.
- Somnath Patil: Yeah, and the net debt was 1,692 crores.
- Mr. Swapnil: 1,692 crores. And do you foresee any further delays in the implementation of your existing expansion plan?
- Puneet Dalmia: No, we do not see any material delays in implementation of our expansion plans.
- Mr. Swapnil: Okay, okay. Thank you.
- Moderator: Thank you very much sir. Next in line, we have Ms. Parul from Avendus Capital. Please go ahead ma'am.
- Parul Patel: Good afternoon sir. Sir, in your opening remarks, you mentioned that you expect challenging times to last over the next 16 to 18 months. Now, I wanted to know what would drift this?
- Puneet Dalmia: I think there are two aspects that, you know, we are focused on. One is that there is a crisis of liquidity in the banking system, so it is very important to keep interest costs under control and it is also very important to ensure that, you know, liquidity is tightly managed in the present situation. I think that is one thing that we are absolutely focused on and although government is taking decisive steps, we are continuously reviewing the environment. We still have a large, you know, fixed rate loan portfolio and about 20% of our loan portfolio is fixed in nature and some of the loan portfolio, even though it is floating is linked to GSEC, which has not moved that sharply as compared to bank PLRs. So, however, the new debt that we have taken for our Greenfield expansions in Kadapa and Ariyalur is BPLR linked, so that is going to impact our interest rates to some extent, although given the current steps, we hope that interest rates may come down. So, I think that is one thing we are cautious about. The second thing that, you know, we are cautious about, we are seeing significant problems in the real estate sector and because of that many projects are getting delayed and some projects are being delayed almost indefinitely. So, even though we are not seeing the impact in cement demand in September or even in October, I feel that, you know, we should be prepared for a lag effect. So, my own view is that if demand slows down even a few percentage points and capacity additions continue to happen which I expect they will, there is going to be a significant challenge in FY09-10

to manage their demand-supply equation and maintain the pricing discipline in the industry. So, I think that is the second key factor that we are keeping a very close watch on and even though south is relatively, I mean India is better placed than rest of the world as I said earlier and south is relatively better placed within the country, I think the environment is going to be, you know, nevertheless challenging.

Parul Patel: Is this, I mean your current quarter results, we have seen there is a 50% erosion in your net profit, is this rock bottom or can we expect something worse than this going forward?

Puneet Dalmia: Well, I would not like to comment on, you know, our future results and we do not give guidance on future results, but I think, you know, some of the positive things that we see is that the costs are coming down and most significantly the fuel costs have come down very, very significantly and secondly if we look at our, you know, the breakdown of our income, our, you know, operating income has increased, but our treasury income has gone down significantly. So, I think from an operational standpoint, I do expect pricing challenges in financial year 10, given the demand-supply equation, but I think the cost structure will be better than the current cost structure.

Ms. Parul Patel: Thank you so much and all the best.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Jinesh from Motilal Oswal. Please go ahead sir.

Mr. Jinesh: Hi sir. I am Jinesh from Motilal Oswal. My question is on your CAPEX plans. Apart from those two capacity expansion at Kadapa and Tamil Nadu, we are looking at new capacities, what would be the status on that?

Puneet Dalmia: Well, we had announced that we are going to, you know, implement another 10 million ton in phases...

Mr. Jinesh: Right.

Puneet Dalmia: ...across the country.

Mr. Jinesh: Right.

Puneet Dalmia: We have identified sites and we have incubated those sites where we are ready to, you know, press the button and do the CAPEX, but as I had said that we are going to phase the CAPEX and we still maintain that stance. We are

going to review the macroeconomic situation in the world and in India and decide on the phasing depending upon the direction in which we see the economy is heading.

Mr. Jinesh:

Okay.

Puneet Dalmia:

I don't think I can give a more specific answer than that at the moment.

Mr. Jinesh:

Right. But have we drilled down on the location and started acquiring land or something or it is still at drawing board phase?

Puneet Dalmia:

We have done that. We have acquired land in specific locations as a part of our normal business development process and to create future investment opportunities for the current businesses; however, we will announce the exact location and the CAPEX once the board decides on which location to, you know, choose.

Mr. Jinesh:

Right. And no orders have been placed obviously?

Puneet Dalmia:

For?

Mr. Jinesh:

For equipments.

Puneet Dalmia:

No, no significant orders have been placed. We continuously talk with our suppliers and keep our option because when we order plants, we have options to increase the orders. So, we still have, you know, an ability to exercise those options as and when the environment is conducive.

Mr. Jinesh:

Right. And secondly in terms of, I mean since you mentioned you are in constant touch with your suppliers, what is the lead time and what is the cost that you are now suggesting, especially considering that commodity prices, especially metal prices have come off quite significantly. Are they passing on benefits in terms of equipment cost?

Puneet Dalmia:

Well, I expect that to happen again with some lag because the steel prices have come down quite significantly, but a part of that reduction has been offset by the depreciating rupee.

Mr. Jinesh:

Right.

Puneet Dalmia:

So, we do not have any, you know, firm quotations, but the sense that we are getting is that the equipment prices may come down by about 10%, but I think this is not backed by

firm quotations but by our general intelligence in understanding of which way the equipment supplier market is heading.

Mr. Jinesh: Right. And in terms of lead times, are they same as around say 2 to 2-1/2 years or that has come off?

Puneet Dalmia: I do not have much visibility about that because this was really driver by the, you know, shortage in the gearbox capacity across the world...

Mr. Jinesh: Right.

Puneet Dalmia: ...and, you know, part of that gearbox capacity was allocated to wind power.

Mr. Jinesh: Right.

Puneet Dalmia: So, as of now, I do not have any clear signals that this lead time is going to be significantly changed.

Mr. Jinesh: Right.

Puneet Dalmia: But I expect that if the industrial CAPEX across the world slows down, some of this gearbox capacity may get free over a period of time because till about six months back, most gearbox manufacturers were sold out for three years and they had a, you know, sufficiently full order book, so I expect the pressure on new orders to ease, but how much that will impact equipment suppliers in the short term is not clear to me at the moment.

Mr. Jinesh: Okay. Secondly in terms of you mentioned that you expect south to be relatively safe from increasing capacities, what would be your sense of capacity addition happening in south over the next two to three years?

Puneet Dalmia: If I look at deep south, which is Tamil Nadu, Kerala, and Southern Andhra Pradesh, we expect about 10 million tons to come in the next two years.

Mr. Jinesh: Okay.

Puneet Dalmia: But if I look at the central Andhra Pradesh cluster, we expect another 15 million to come there in the next two years.

Mr. Jinesh: Okay. So, in all, around 25 million....

Puneet Dalmia: 25-30 million, yeah.

Mr. Jinesh: Okay, okay. And by when do you expect impact on prices in south to come in?

Puneet Dalmia: Sorry.

Mr. Jinesh: By when do you expect prices to come under pressure in south?

Puneet Dalmia: As I said, I think financially year 10 is going to be quite challenging...

Mr. Jinesh: Okay.

Puneet Dalmia: ...and I think we are careful right from the first quarter.

Mr. Jinesh: Right, okay. Thirdly, on your imported coal, since prices have come off but we have inventories, but what is your sense on what would be the new contract rates you would be offered at?

Puneet Dalmia: We are currently seeing rates at sub-100 dollars, although it had peaked to about 200 dollars per ton.

Mr. Jinesh: Right. And this is from South Africa or Australia?

Puneet Dalmia: I am talking about Indonesia.

Mr. Jinesh: Indonesia. Indonesia had gone up to 200 is it?

Somnath Patil: No, no, South Africa had gone up to 200, but that has included freight.

Mr. Jinesh: Freight, right.

Somnath Patil: Yeah. And that was South Africa.

Puneet Dalmia: Indonesia was about 50 dollars cheaper than that.

Mr. Jinesh: Okay, okay. Lastly on sugar, now since UP government has increased SAP to 140-145, are we as a industry looking to contest that and any steps you have taken in that direction?

Puneet Dalmia: Yeah, I think so. I think the association is taking a view on, you know, how to tackle the situation, but we are definitely going to make a representation for the UP government and ensure that our point of view is heard and factored into this kind of decision making.

Mr. Jinesh: Okay. Okay, that's all from my side. Thanks.

Puneet Dalmia: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Ajay Vora from Enam Asset Management Company. Please go ahead sir.

Ajay Vora: Yeah. Hi, good afternoon sir. Just wanted to check what were the realizations like in Q2 in Tamil Nadu and Kerala?

Puneet Dalmia: I will pass that on to Nidhi.

Nidhi: The average...hello....

Ajay Vora: Without excise...post excise duty.

Nidhi Aggarwal: Post...yeah, so our average realization for the quarter was about 3,800 rupees.

Ajay Vora: 3,800.

Nidhi Aggarwal: Yes.

Ajay Vora: Okay. And can you just give a sense of which was a major region which saw the price increases.

Nidhi Aggarwal: It was actually across our markets which are Tamil Nadu and Kerala.

Ajay Vora: Yeah.

Nidhi Aggarwal: And our share of market in Tamil Nadu has also gone up slightly from last quarter.

Ajay Vora: Okay.

Nidhi Aggarwal: So, probably that was the reason why, you know, realizations were better.

Ajay Vora: Okay. And overall, in southern region, what was the growth rate year on year?

Nidhi Aggarwal: As in South India?

Ajay Vora: Yeah.

Nidhi Aggarwal: In terms of pricing, south has seen an increase of about 4%.

Ajay Vora: No, I am saying cement volume demand.

Nidhi Aggarwal: Volume demand has been 12%.

Ajay Vora: 12%.

Nidhi Aggarwal: Yeah.

Ajay Vora: Okay. And as Mr. Dalmia said that around 25 million ton is expected it the next two years, if we just have a look in next six months, what would be the estimated capacity which is expected for the second half?

Nidhi Aggarwal: In south?

Ajay Vora: Yeah. Hello...hello...

Nidhi Aggarwal: Hello...

Ajay Vora: Yeah.

Nidhi Aggarwal: We are expecting about 16 million tons.

Ajay Vora: 16 million tons in the next six months?

Nidhi Aggarwal: Yeah, because we haven't seen too much capacity addition in the...this is for the full year.

Ajay Vora: Yeah.

Nidhi Aggarwal: So, out of which, I don't think we have seen too much capacity addition in the first six months itself.

Ajay Vora: Okay. So, all the 16 million tons is expected in the next six months?

Nidhi Aggarwal: Yeah, more or less, yeah.

Ajay Vora: And another 9 to 10 million tons in FY10?

Nidhi Aggarwal: Yeah, thereabout.

Ajay Vora: Okay. So, approximately what correction are you looking at in terms of pricing till next 18 months?

Puneet Dalmia: I don't have a forecast for where the price is going to head in the next 18 months.

Ajay Vora: Okay. Okay, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Vivek from CLSA. Please go ahead sir.

Mr. Vivek: Hi Puneet.

Puneet Dalmia: Hi Vivek.

Mr. Vivek: Sir, my first question is on the cement demand in south. Now, if we see the cement demand in south, as you also mentioned, you know, grew by something like 12% in the first half as against the national average of 7.5% and in that national average, if we, you know, exclude south, then the demand was at a moderate 6%. So, what is it that is driving demand, you know, in south?

Puneet Dalmia: I think it is all about better governance and better leadership. So, if you look at, let me just go state by state, if you look at Karnataka, Karnataka has been the center of the IT revolution and in the last five years, demand has grown by about 11%. So, there has been a sustainable double digit CAGR increase in Karnataka. If I look at Andhra Pradesh, the last three year CAGR has been upwards of 20% and this has been due to a massive infrastructure program that the, you know, chief minister of Andhra took to implement on irrigation. So, they had a program to build canals which involved infrastructure CAPEX of upwards of 20 billion dollars. So, I think these two states have, you know, demonstrated significant, you know, investments in either IT or agri infrastructure. If I look at Tamil Nadu, Tamil Nadu has always been...the central Tamil Nadu has been the hub of industrial activity. There has been textile, cement, which causes a multiplier effect on the economy and other than that, the leadership there has also taken effective steps to, you know, besiege into IT hub which is after looking at the success of Karnataka. So, I think Tamil Nadu has also sustained, you know, cadre, and I think in general, you know, leadership in south has been better than the leadership in north. So, I think a large, you know, aspect of this is to do with the political leadership and which translates into very specific programs to put the state economy on a sustainable growth path.

Mr. Vivek: Right sir. And as you mentioned that, you know, there is going to be a lag effect and, you know, maybe two-three quarters, you know, coming ahead would still be strong. So, what is your sense, you know, after that how low, you know, demand could be in south, could it, you know, go down to as much as 5-6% like the rest of India?

Puneet Dalmia: Well, it is hard to predict at the moment because I think even though there is...I am seeing some impact from the real estate sector...

Mr. Vivek: Right.

Puneet Dalmia: ...but I think this can be significantly...this can be significantly offset by the infrastructure component of the demand. So, I am yet to, you know, see how it eventually plays out because some of the people in the state governments that I have been talking to are we seized of the situation....

Mr. Vivek: Right.

Puneet Dalmia: ...and they are, you know, looking at increasing their infrastructure spends very significantly. So, if that happens, then I think, you know, some of the negative news from the real estate sector may get offset by this government spending on infrastructure. The second part is that if interest rates come down, I think, you know, the housing loan market which has also slowed down in recent terms, I mean it was growing at about 25% to 30% and now it is growing at about 10%. If the interest rates come down, a lot of the do-it-yourself house construction, you know, will grow faster. So, I think even within real estate construction, there is a do-it-yourself market and an organized market. I am seeing, you know, problems in demand or delays in construction in the organized market. So, all I can say at the moment is we are cautious about demand growth, but it is not going to fall off the cliff. It may slow down by a few percentage points, but it is not going to, you know, fall off the cliff as it has been in the west.

Mr. Vivek: Right sir. And I don't know, it might be too premature to ask you this question at this point of time, but, you know, in your last presentation in Mumbai, you mentioned that, you know, there could be a chance that if infrastructure picks up really well, you know, compared to real estate, then there could be a meaningful shift to OPC. So, anything, you know, in the quarter that was visible or it was around the same, you know, in line with the previous quarters?

Puneet Dalmia: We are already seeing that happening in some parts of the country.

Mr. Vivek: Okay.

Puneet Dalmia: And if you look at the numbers, product mix of ACC and Shree Cement, I think there is a visible shift month on

month towards OPC-based product mix. So, I think the effect has started in north and I think it is going to continue across the country.

Mr. Vivek: Sure, right sir. On your coal, what is the mix, you know, between international and domestic and even linkages and, you know, open market for Dalmia?

Puneet Dalmia: So, our coal is currently 100% imported, although in the power plant we consume about 20% domestic coal, but given the flare-up in coal prices, we have revised our linkages, but we expect to sign a fuel supply agreement sometime in early January next year. So, I think we want to keep the options open in terms of switching the fuel mix, but it will still remain heavily loaded in favor of imports.

Mr. Vivek: Okay. And we are reading a lot about, you know, or hearing a lot about, you know, difficulties, you know, that cement companies are facing in getting the linkage coals, so, you know, do you believe that next Jan you would be able to kind of, you know, lock in supplies, you know, from linkage coal?

Puneet Dalmia: Yes. I think new linkages are a problem, but we already had an old linkage which we have revived, and we have installed an operating capacity. So, you know, there, there is a clear end-use and there is a clear, you know, CAPEX which has been, you know, completed. I think the government is taking a favorable view. So, I think there is a long queue, but in that queue, I think we are ahead.

Mr. Vivek: Right. And my last question on cement is, you know, given the slowdown in demand and all, are you seeing any cancellation of capacity so far announced by the player or, you know, nothing as of now on that front?

Puneet Dalmia: We are seeing betterment of CAPEX plan and we are seeing cancellations of orders as well. So, I would not like to take names on this call, but we think that rate of capacity addition will be significantly decelerated in the coming quarters.

Mr. Vivek: Thank you sir. On this crushing in UP...

Puneet Dalmia: Yeah.

Mr. Vivek: ...would the company delay, you know, the crushing given that SAP is already challenged?

Puneet Dalmia: We are going to take this matter through the association

and all I can say is we will take all steps to ensure that our point of view is heard including delay in crushing if required. So, we are going to keep all our options open at the moment.

Mr. Vivek: Okay. And, I mean assuming that happens, then is there any possibility that, you know, the company would lose may be sugarcane?

Puneet Dalmia: No, I think we are going to keep a very strong, very, you know, cautious eye on the maturity of the cane and we time the crushing to ensure that recoveries are maximized. So, I think this has to be very finely balanced and this cannot be....

Mr. Vivek: Cannot let go...

Puneet Dalmia: We cannot let go of crushing and create inordinate delays in doing that.

Mr. Vivek: Already it is in the court or we are still waiting for some final releases to go ahead and do it?

Puneet Dalmia: Sorry.

Mr. Vivek: We already challenged this in the court or we are still waiting to do that?

Puneet Dalmia: We still haven't challenged it in the court. We are waiting to do that.

Mr. Vivek: Thank you very much sir.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. I repeat, participants who wish to ask questions may please press *1. Next in line, we have Mr. Chockal from B&K Securities. Please go ahead sir.

Mr. Chokalingam: Hi Puneet. This is Chokalingam from B&K. I had a few questions. One was we keep hearing from some of the dealers that some of the plants is kind of breaking down in a few places or so. How long do the, you know, shutdowns normally happen for and, you know, what kind of...are you already seeing...have you heard such kind of things across the industry or...can you throw some light on that?

Puneet Dalmia: Yeah. I think last two years given the fact that there was, you know, great pricing environment and limited capacity, people were sweating their assets to the maximum

possible limits and in some cases, you know, it was getting pushed beyond the limits. So, there were some breakdowns in poorly maintained plants or plants which were pushed beyond limits, but my own view is this was not material enough to change the dynamics of the industry. It was at best a short-term impact limited to a few clusters, but it was not a material, you know, issue in the industry as a whole.

Mr. Chokalingam: Do you see that happening, you know, in the next 12 months or what quantum could that be, anything of that sort of, you know, some light on that?

Puneet Dalmia: No, I think now people are already starting to take, you know, longer shutdowns to, you know, ensure better, higher quality maintenance, so I do not feel that over the next, you know, few months we are going to see more signs of breakdowns due to slogging or sweating of that.

Mr. Chokalingam: Okay. And if we have more capacities coming up, are we also likely to, you know, natural thing, the lead distances tend to increase.

Puneet Dalmia: Yeah.

Mr. Chokalingam: What kind of increase are we, you know, looking at?

Puneet Dalmia: I think it is hard to give a, you know, generalized answer to that because it depends on the region and, you know, kind of capacity. Many times if existing players are putting up capacity, it actually gives them, you know, more advantage in logistics cost because they can serve different markets from different plants now as they have a, you know, more flexible, you know, footprint. So, I think it is hard to give a generalized answer to that question. If you talk about a specific region, about a specific company, you know, I think we can talk.

Mr. Chokalingam: What about us?

Puneet Dalmia: So, for example, in our case, we are putting up a plant in Kadapa.

Mr. Chokalingam: Yeah.

Puneet Dalmia: Currently, we supply to south Karnataka from our Dalmiapuram plant.

Mr. Chokalingam: Yeah.

Puneet Dalmia: So, in future, we are going to supply to this plant from Kadapa...to this, you know, location from Kadapa. So, in fact, our lead distance on about, you know, 20% to 25% of our volume is actually come down. Similarly we can serve the northern part of Tamil Nadu also from Kadapa instead of Dalmiapuram. So, we can serve actually the more deep south or, you know, Kerala from Dalmiapuram.

Mr. Chokalingam: But on an average, isn't your number going to increase, you know.

Puneet Dalmia: No. On an average, our lead distance is actually not going to increase because we are now developing a more flexible configuration. However, some part of our capacity is coming in less attractive market as compared to Tamil Nadu.

Mr. Chokalingam: Okay.

Puneet Dalmia: To that extent, our MCR may get affected because the prices in south Andhra Pradesh are, you know, generally slightly lower than, you know, central Tamil Nadu.

Mr. Chokalingam: Okay. And what about coal blocks, I think you have received one or two?

Puneet Dalmia: Yes. We have been allocated a coal block near Nagpur.

Mr. Chokalingam: Okay.

Puneet Dalmia: But it is going to take time to get that block into production, but long term I think it is a great asset to have given the importance, growing importance of fuel security.

Mr. Chokalingam: What could be the quantum of coal that we will be entitled to, are there other partners in this?

Puneet Dalmia: Yes, there are partners in this. We have been allotted a coal block with a steel company, which is called Sunflag.

Mr. Chokalingam: Okay.

Puneet Dalmia: ...and total share that...of the geological reserves that has been given to us is about 30 million tons

Mr. Chokalingam: What is the number per year?

Puneet Dalmia: So, I think we still have to do detailed prospecting in terms of how much we can take out, given the, you know, type of, you know, reserve in the mind, but usually for underground

mines, we plan on the basis of half a million to one million a year at best.

Mr. Chokalingam: And sir, just wanted to know are we having any plant coming up over there, which will effectively take the coal, use up the coal from there or are we going to bring into all the way from there into our plants, down south.

Puneet Dalmia: Yes. Again, I think it depends on the pricing environment of the alternative option. So, if the imported coal continues to remain at, you know, these levels, we can still get this coal cheaper from our captive block in the long term.

Mr. Chokalingam: Okay. And these captive blocks, typically there are, you know, quite a lot of rumors that some of the kilo calcs that you get out of these blocks are kind of very, very low. I know you have just said that, you know, you need to do your prospecting and stuff like that, but are there any, you know, already done studies on these blocks....

Puneet Dalmia: Yeah, yeah.

Mr. Chokalingam: ...and what are their, you know, calculations on the kilo calcs which are available?

Puneet Dalmia: So, you know, Government of India is mostly allocating underground blocks now...

Mr. Chokalingam: Okay.

Puneet Dalmia: ...and underground blocks have better quality of coal, so generally it is between C and E grade. So, in our case, based on whatever data we have, typically the coal would be C to D grade....

Mr. Chokalingam: Okay.

Puneet Dalmia: ...which is still fairly good.

Mr. Chokalingam: Okay.

Puneet Dalmia: And I think it remains a very valuable option because the international prices fluctuate a lot...

Mr. Chokalingam: Okay.

Puneet Dalmia: ...and we can do captive mining on our own, you know, even though the transportation costs may be high, we can bring them down due to rail connectivity.

- Mr. Chokalingam: Okay.
- Puneet Dalmia: I think it remains a very attractive option long term.
- Mr. Chokalingam: What about wagon availability, what portion of our logistics is today, you know, rail driven and for the new plant, do we have a railway siding and what, how will that mix change once the plant is in and what is the average cost per ton kilometer if you can specify?
- Puneet Dalmia: Our current mix is about 70% road, 30% rail.
- Mr. Chokalingam: Okay.
- Puneet Dalmia: And...
- Nidhi Aggarwal: Nidhi here. This quarter, in fact, our rail has gone up. From 30, we have gone up to 48%. So, that is part of the reason why our freight costs have come down a little bit.
- Mr. Chokalingam: Ma'am but if you can normalize it, it will be better because the off-peak season, you normally get higher wagon availability, so....
- Puneet Dalmia: On normalized basis, it is 70-30....
- Mr. Chokalingam: Okay.
- Puneet Dalmia: ...in favor of road and at the moment, I think we are still doing, you know, optimized dispatch mix from all our locations and I think for outward freight, we do not expect the proportion to change materially because they are already going to reduce our lead distance given the new plant configuration, we are getting three locations instead of one location now. So, overall I do not expect a material shift in the rail versus road mix.
- Mr. Chokalingam: Okay. And on the per cost ton, you know, per ton kilometer cost, what is the road number today and what is the rail number?
- Puneet Dalmia: I think rail is about...so road will be somewhere in the region of 1.2 rupees per ton per kilometer.
- Mr. Chokalingam: Okay.
- Puneet Dalmia: And rail will be about 20% cheaper than that. So, about, you know, 90 paisa to 1 rupee per ton per kilometer.

- Mr. Chokalingam: Normally in the north, I believe the numbers on road are, you know, slightly on the higher side, about 1.4 or so. Any particular reason that you believe there could be such a number?
- Puneet Dalmia: Actually some of the regions in the north are actually in the hilly area like Himachal Pradesh.
- Mr. Chokalingam: Okay.
- Puneet Dalmia: So, you know, in hilly terrain, typically the rates are slightly higher than in flat terrain.
- Mr. Chokalingam: Okay, okay, so nothing particular, okay. Fine, thanks a lot.
- Moderator: Thank you very much sir. Next in line, we have Mr. Swapnil from Span Capital again. Please go ahead sir.
- Mr. Swapnil: Hi Puneet. This is Swapnil here.
- Puneet Dalmia: Yeah Swapnil.
- Mr. Swapnil: Yeah, can you please throw me some light on why is the other income negative for this quarter as well as half year?
- Puneet Dalmia: Actually we had some investment in our equity portfolio....
- Mr. Swapnil: Okay.
- Puneet Dalmia: ...which we sold, you know, before the crash, so we booked some losses on it.
- Mr. Swapnil: Okay, fine. Yeah, thank you, thanks a lot.
- Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. Next in line, we have Mr. Chokalingam from B&K Securities. Please go ahead sir.
- Mr. Chokalingam: Hi sir. Sorry, just missed one question. What is the amount of foreign currency loans that we have in our books and in what currencies are these?
- Somnath Patil: No, we don't any significant foreign currency loans. We don't have any foreign currency loans.
- Mr. Chokalingam: You don't have. And what is the current cost of the debt?
- Somnath Patil: That is around 10.13%.
- Mr. Chokalingam: How much...you said 20% is fixed right?

Puneet Dalmia: Yeah, 20% is fixed.

Mr. Chokalingam: How much sir?

Puneet Dalmia: 20%.

Mr. Chokalingam: 20%, and the rest is floating, okay. Okay, and the cash, the 350 crores odd, we have it in, you know, what kind of instruments?

Puneet Dalmia: It is mostly in equity.

Mr. Chokalingam: Equity?

Puneet Dalmia: Yeah.

Mr. Chokalingam: Okay, so this number is mark to market as of when?

Puneet Dalmia: This number is mark to market as on March, but if you look at our September numbers, we would be down in line with the market.

Mr. Chokalingam: So, could be somewhere around 170 or 160 crores, something like that or...

Puneet Dalmia: It would be somewhere in the region of 100 crores.

Mr. Chokalingam: Okay, okay. Thank you sir.

Moderator: Thank you very much sir. Participants who wish to ask questions may please press *1. 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.

Puneet Dalmia: So, once again I would like to thank all of you for participating in this call and that you for, you know, very healthy and intense interaction. Overall, I would like to sum up that the current situation is challenging and we are bracing up for the challenge. We expect the next 6 to 18 months to continue to remain challenging. However, we are, you know, very bullish on the long-term story of India. Challenges still stay on course. We believe that when you have to play emerging markets, you have to have the digest...you have to have the ability to digest the short-term bumps. We have been in this business for 65 years, and we have seen several crisis, and I think this crisis will make us even stronger. So, once again, thank you for your participation and we look forward to a continued interaction.

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.
