

**Dalmia Cement (Bharat) Limited**  
**Third Quarter Earnings Conference Call- Financial Year -2008-2009**  
**January 29, 2009**

Moderator: Good afternoon ladies and gentlemen. I am Abhinandan, the moderator, for this conference. Welcome to the Dalmia Cement (Bharat) Limited conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Puneet Dalmia. Thank you and over to you Sir.

Mr. Puneet Dalmia: Thank you Abhinandan. A very warm welcome to all of you for discussing our Q3 results. We have had a difficult quarter. Overall, on the sales side, our sales are up 9% year-on-year and our 9-month sales are up 18%, but in terms of our EBITDA, we have had a substantial decline on account of two issues. One is we had significantly less other income this quarter as compared to the last quarter, 88 crores as opposed to minus 4 crores, and in terms of cement volumes, our volumes were hit because our production this quarter was disrupted by two kiln shutdowns, which was longer than expected and unscheduled. So, basically for the quarter, we are down by about 8% in terms of production. We did 688'000 tonnes in sales and as compared to 741'000, which is about 8% less, and on our 9-month basis, we are about 2% higher than last year. So, overall, our production volumes have been, you know, fairly flat, but this quarter because of unscheduled maintenance, you know, we lost about 8%. So, on account of other income, production volume, and higher fuel cost, we have suffered a significant decline in our EBITDA. However, on a overall basis, we are, you know, seeing that fuel costs are correcting significantly, so going forward, once our high-cost inventory gets consumed, we are expecting a decline in fuel cost from March of this year or April of next year, so that all the impact will be visible from Q1 of next year. The Cuddapah plant has started producing clinker, so I think that is a very positive news. Similarly on the sugar side, we are seeing very positive realizations. The current spot prices are about 18,500 and future prices are even higher. We are seeing future prices of Rs. 22 to Rs. 23 a kg, so we expect that, you know, the sugar business should do well, and on a macro environment basis, we feel that, you know, the cement demand is still pretty healthy at an all-India level and at a regional level. We expect that the country will grow at about 8% this year and South will grow at about 9% to 10%. So, the business is holding up pretty robust. Finished product prices are still holding up. Raw material prices are correcting, and you know, demand is still, you know, reasonably healthy. We are cautious about our outlook for the next year because, you know,

we feel that new projects are getting delayed, but we still feel that India will grow at a healthy rate, so about 5% to 6% GDP growth is definitely feasible, and cement demand is also likely to grow in the same region. So, overall, we remain, you know, cautiously optimistic about the business, and you know, we are preparing ourselves, you know, for a challenging 18 to 24 months. If there are any questions, I will be happy to take it.

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

Mr. Manish Goyal: Yeah, good afternoon. Hello?

Mr. Puneet Dalmia: Good afternoon.

Mr. Manish Goyal: Yeah. If you can just provide some insight as to what is the market scenario as far as North is concerned, what kind of capacity utilizations we are seeing across the board and for Dalmia Cement.

Mr. Puneet Dalmia: At an all-India level, we are seeing a capacity utilization of about 85%. If you look at different regions, you know, North India was affected by imports from Pakistan, and that has been corrected after the correction in countervailing duty, which happened in December. I think a lot of that export, which was, you know, 1% of all India, but as a percentage of North India, it was like about, you know, 3% of North India market. I think that share is now available to domestic producers. So, I think the price decline that the northern part of the country faced has arrested. They had about Rs. 7 to Rs. 8 decline in prices, and now, prices are still holding up. If I look at South India, we were, you know, starting to see, you know, problems due to imports. There were some imports, you know, from Pakistan in Tuticorin, but it was a one-off incident and the before it could become significant, that, you know, that issue has been addressed by correction in the, you know, import duty structure. The market is still holding very well. As you can see, the demand growth in December has been, you know, very positive. There has been 11.6% on a YTD basis in South India and at an all-India level, it is 8.3%. So, South is growing almost 3% more than the all-India growth. So, I think the current cement demand is very healthy, but we are expecting a lag effect, because currently all the projects under construction are getting completed and, we are not seeing new projects start at the same pace as they were starting. Hence, our outlook for demand growth next year, as I said earlier, is in the range of 5% to 6% depending

upon, you know, GDP growth.

Mr. Manish Goyal: So, for Dalmia now, what is the capacity after the new plant has started? The year started two million tons, right?

Mr. Puneet Dalmia: Yeah, so our total capacity on a 100% PPC basis for Cuddapah is about two and a half million tons. So, our total installed capacity currently is about, you know, six and a half million tons.

Mr. Manish Goyal: And you had one more plant which is ...

Mr. Puneet Dalmia: Yeah, so our Ariyalur plant which is in Tamil Nadu, that is under construction, and we expect to start production some time in June or July this year.

Mr. Manish Goyal: That is again two million tons.

Mr. Puneet Dalmia: Yeah, again on a 100% PPC basis, it is 2.5; and on a 100% OPC basis, it is about two million tons. So, depending upon the product mix, the plant capacity will vary from 2 to 2.5.

Mr. Manish Goyal: Okay, the plant which you started recently; how much time does it take for you to achieve say 70% to 80% capacity utilization?

Mr. Puneet Dalmia: It may take about three to four months.

Mr. Manish Goyal: And what is it currently like? What is the operational?

Mr. Puneet Dalmia: So, right now, we have started producing only clinker.

Mr. Manish Goyal: Okay.

Mr. Puneet Dalmia: We are starting the cement production in the end of February.

Mr. Manish Goyal: Okay.

Mr. Puneet Dalmia: Right now, we are building clinker stock and so, if you say, 70% to 80% utilization, it will take three months from end of Feb, so basically some time in May, we should be able to reach 70% to 80% of the rated capacity.

Mr. Manish Goyal: Okay. Okay. And so, how much do you intend to produce in quarter four in terms of volumes? Overall I am asking.

Mr. Puneet Dalmia: You are asking for all plants put together?

Mr. Manish Goyal: Yeah, yeah, quarter four, what is your expectation on the volume?

Mr. Puneet Dalmia: We do not want to give guidelines on our, you know, futuristic basis right now. So, I would like to say that our, you know, current plant is four million tons in capacity and the Cuddapah plant will

barely start producing, you know, some quantity in March. So, you can, you know, do your calculations on that basis.

Mr. Manish Goyal: Okay. And on pricing front, what has been the realization for Dalmia for quarter three and what was your EBITDA per ton?

Mr. Puneet Dalmia: Our EBITDA per ton for quarter three was about Rs. 1200, Rs. 1195. It is on page 16 of the handouts that we have circulated, and on a 9-month basis, our EBITDA per ton was about, you know, Rs. 1388.

Mr. Manish Goyal: And, what is your expectation, say going forward, next year? Do you expect this kind of EBITDA per ton as sustainable?

Mr. Puneet Dalmia: It is hard to say. I think but on the positive side, the coal prices have corrected quite significantly as I said earlier. So, on a fuel cost, I think, you know, we should be saving about, you know, Rs. 150 to Rs. 200 a ton, but you know, depending upon how prices behave, the EBITDA can get positively impacted or negatively impacted. If prices hold, the EBITDA can actually increase, and prices correct, you know, to some extent, the energy cost benefit can get eaten away by the price decline.

Mr. Manish Goyal: And in your case, have you imported any coal or is it?

Mr. Puneet Dalmia: Yes, we actually, you know, ahead of the rainy season, which was this quarter, that is October to December, we bought, you know, two shipments of coal in August, and that is at 200 dollars per ton and that is high cost inventory that we are carrying at the moment. So, that is why our fuel cost for this quarter has been an aberration, and they have been significantly higher than our normal baseline fuel cost.

Mr. Manish Goyal: So, this inventory is going to last till March end, you said.

Mr. Puneet Dalmia: That is right.

Mr. Manish Goyal: Okay, and as far as sugar is concerned, what is the kind of inventory we are carrying and at what price?

Mr. Puneet Dalmia: You want to know the inventory as of December 2008?

Mr. Manish Goyal: Yeah.

Mr. Puneet Dalmia: We will send you the numbers on the inventory, you know, later.

Mr. Manish Goyal: Okay.

Mr. Puneet Dalmia: Currently, we produced about 52,000 tons this quarter.

Mr. Manish Goyal: Okay.

Mr. Puneet Dalmia: And our closing stock of sugar is about 110,000 tons.

Mr. Manish Goyal: And at what price you are carrying that?

Mr. Somnath Patil: This is about 17,000 rupees per ton.

Mr. Manish Goyal: And what is your outlook on sugar?

Mr. Puneet Dalmia: We are seeing a very positive pricing environment. So, I think next year, prices should be very, very healthy, but you know, this year, there has been a very significant dip in recovery in almost all plants in UP, so our current recovery rates for this quarter are only 8.5% as compared to 9.8% in the previous year. So, we are trying to see what best we can do in terms of managing this through the rest of the season, but you know, the production volume will be lower than what we expected earlier, and I think that is going to happen across the industry, so therefore, we expect, you know, very healthy sugar price during 2009 and 2010.

Mr. Manish Goyal: And what is the cost of cane you have factored?

Mr. Somnath Patil: That is 140 rupees.

Mr. Manish Goyal: Even for your basically earlier, you have factored at 140 rupees? The carry forward stock what you have...

Mr. Somnath Patil: No, that was at 125.

Mr. Manish Goyal: Okay.

Mr. Somnath Patil: And the new arrivals are at 140. These are bare cane cost.

Mr. Manish Goyal: Thanks Sir. Thanks a lot. I will get back for more questions later.

Moderator: Thank you very much Sir. Next question comes from Mr. Jay Asher from JM Financial.

Mr. Jay Asher: Hi Puneet. How are you?

Mr. Puneet Dalmia: Hi Jay. I am very well. Thanks.

Mr. Jay Asher: Puneet, on your gross debt number, if you can give me.

Mr. Somnath Patil: Yeah, it is about 2400 crores.

Mr. Jay Asher: Okay, and cash and liquid investments?

Mr. Somnath Patil: That is about 350 crores.

Mr. Jay Asher: As of?

Mr. Somnath Patil: As of December end.

Mr. Jay Asher: Okay. And you mentioned about savings from fuel. So, can you just tell me what is the average coal cost for the third quarter?

Mr. Somnath Patil: Yeah. 8300 rupees.

Mr. Jay Asher: No, I want full cost. Absolute.

Mr. Somnath Patil: Yeah, yeah. Absolute. It is I think around 175 to 180.

Ms. Nidhi Aggarwal : It comes to about 160 dollars per ton.

Mr. Jay Asher: 160 dollars per ton?

Ms. Nidhi Aggarwal : Yeah.

Mr. Jay Asher: And what is the new imports that you are doing currently at?

Mr. Somnath Patil: 90 dollars per ton currently.

Mr. Jay Asher: Okay, okay, so, is it fair to assume that in the fourth quarter, you will have a savings of at least on a weighted average basis about 35 to 40 dollars a ton?

Mr. Somnath Patil: No, we will not have because they are carrying significant quantities of coal inventory.

Mr. Jay Asher: Okay, okay.

Mr. Somnath Patil: Which is bought at very high price.

Mr. Jay Asher: Okay, okay.

Mr. Somnath Patil: And I think that will get consumed by March because our production this quarter was low, so we were hoping that we will be able to consume all the coal that we had bought, but because of lower production, you know, we are still carrying some of that inventory which will get consumed in the Jan to March quarter, so the impact of this lower spot price will be available in the first quarter of next year.

Mr. Jay Asher: Okay, okay. And you mentioned about your capacity at the new plant being 2.5 million tons for 100% PPC.

Mr. Puneet Dalmia: Right.

Mr. Jay Asher: But, can you just tell me what is the clinker capacity there? Both the plants?

Mr. Puneet Dalmia: Our rated clinker capacity is 4500 TPD, but based on the results that we have achieved in Dalmiapuram and OCL,

Mr. Jay Asher: Okay.

Mr. Puneet Dalmia: we believe we can easily run it at 5000 TPD and possibly at even 5500. So, we are doing our calculation on the basis of 5000 TPD.

Mr. Jay Asher: Okay. Okay. And your comments on blending ratio currently, for South India specifically to your market?

Mr. Puneet Dalmia: Our blending ratio is 1.41.

Mr. Jay Asher: Okay.

Mr. Puneet Dalmia: And the cement-clinker ratio varies from state to state. In Tamil Nadu, the industry cement-clinker ratio is 1.39 whereas in Andhra Pradesh, it is 1.25, and it is the same in Karnataka.

Mr. Jay Asher: Okay. How do you see that going forward?

Mr. Puneet Dalmia: I personally think there will be significant correction in product mix in some companies, you know, because that is way to take capacity out of the system.

Mr. Jay Asher: True.

Mr. Puneet Dalmia: And I forecast that, you know, there will be a significant switch to OPC production in the next two years.

Mr. Jay Asher: Okay.

Mr. Puneet Dalmia: It will not be, you know, if that is at an industry level, each company will follow a different policy depending upon.

Mr. Jay Asher: The effective markets here.

Mr. Puneet Dalmia: Plant location in the markets that they address.

Mr. Jay Asher: Yes, that is fair enough for the industry. You took a plant shutdown. What are the major reasons for taking significant?

Mr. Puneet Dalmia: Actually, there are two reasons. We have two kilns in Dalmiapuram. The KHD kiln shutdown was preponed and that is why I gave you a 9-month volume number. Our Q3 volume numbers are 8% lower than last year, but our 9-month number is actually 2% higher than last year. So, to some extent, we had both kilns shutting down in the same month, because, you know, not as per planned, but we cannot forecast it, so I think that is one reason why the Q3 numbers are lower, and the second reason is that actually our shutdown lasted for longer than expected. So, we

lost about seven to 10 days based on, you know, just longer maintenance time, you know, and.....

Mr. Jay Asher: Any increased repair and maintenance cost for the same during the quarter?

Mr. Puneet Dalmia: Sorry?

Mr. Jay Asher: Any increased repair and maintenance cost allowed for the same?

Mr. Somnath Patil: Yeah, yeah. It has gone up by about six crores in this quarter compared to the same quarter last year.

Mr. Jay Asher: Okay. So, it was higher by six crores. Okay. Thanks very much. Best of luck.

Mr. Puneet Dalmia: Okay. Thank you.

Moderator: Thank you very much Sir. Next in line, we have Mr. Vivek from Veda Advisors. Please go ahead Sir.

Mr. Vivek: Yeah. A couple of questions firstly relating to your other income. I mean, historically, you have had a significant treasury book.

Mr. Puneet Dalmia: Yeah.

Mr. Vivek: I mean, are these the actual losses? Are these just the interim losses that you have provided for? I mean this has been happening for the last two to three quarters, so I just wanted to find out as to what is the status of the investment book which you have been holding.

Mr. Puneet Dalmia: So, these are the actual losses that we have provided for, and you know, in the last year, we were actually, you know, holding significant mark to market profits which we had encashed, so our policy right now has been that we provide for profits or loss not based on mark to market, but on the basis of actual, you know, loss incurred or profit gain, but I think we are going to, you know, continue with that policy, but at this moment, we have, you know, significant mark to market losses in our equity portfolio which is in line with the market.

Mr. Vivek: But, are you continuing to hold that portfolio? I am asking you from the taxation point of you that as in have these investments been sold or are you still sitting on them?

Mr. Puneet Dalmia: No, no, no. We are still sitting on those investments. So, whatever we sell...

Mr. Vivek: Okay.

Mr. Puneet Dalmia: We are actually booking losses to the extent that we have sold that portfolio.

Mr. Vivek: Okay. So, this number represents only the losses.

Mr. Puneet Dalmia: That is right.

Mr. Vivek: Not the total portfolio.

Mr. Puneet Dalmia: Not the total portfolio.

Mr. Somnath Patil: This is the loss incurred.

Mr. Vivek: Okay. And what would be the investment book that you would be holding now, I mean, as of December end?

Mr. Somnath Patil: That is about 277 crores.

Mr. Vivek: Okay, and what would be the mix, I mean, in terms of equity, and I mean, mutual funds, liquid investments, and all that?

Mr. Somnath Patil: Most of it is in the equities in the market.

Mr. Vivek: Okay. Okay. But does that affect your, I mean, I am linking it up to CAPEX plan in terms of cash flows. I mean, maybe you had kept that in good times to be invested in future for your business, but does that make you rework on your funding mix, because this money is not going to be available or may be significantly less money is going to be available?

Mr. Somnath Patil: Yeah, you are right. Actually, our working capital borrowings have gone up by about 160 crores.

Mr. Vivek: Okay.

Mr. Somnath Patil: For which we would not have borrowed had we encashed this, you know. So, we are just waiting for this.

Mr. Vivek: Okay.

Mr. Somnath Patil: That is one reason why our debt also has gone up

Mr. Vivek: Okay.

Mr. Somnath Patil: And which has resulted in higher interest cost as well.

Mr. Vivek: Okay. Now, from the CAPEX point of view, I mean, how much has been the CAPEX incurred in nine months? How much happened in Q4 and in the next financial year?

Mr. Somnath Patil: Yeah. In the nine months, we have incurred a CAPEX of about

850 crores.

- Mr. Vivek: Okay.
- Mr. Somnath Patil: And in the Q4, we incurred 200 crores.
- Mr. Vivek: I mean, 200 crores is intended?
- Mr. Somnath Patil: 200 crores is included in that 850 crores..no, no. In this Q3, we have got 200 crores.
- Mr. Vivek: Okay.
- Mr. Somnath Patil: And we have totally incurred, you know, on the project 1268 crores.
- Mr. Vivek: Okay.
- Mr. Somnath Patil: Yeah. So, in the next quarter, we intend at incurring another at least 200 crores.
- Mr. Vivek: So, this 400 crores will happen in the next financial year.
- Mr. Somnath Patil: Yes.
- Mr. Vivek: Okay.
- Mr. Somnath Patil: Mainly on the Ariyalur project.
- Mr. Vivek: Okay, and what other expansion remains which you are executing over the next few quarters?
- Mr. Somnath Patil: The Ariyalur one, that is the only one which is in the pipeline right now.
- Mr. Vivek: Okay.
- Mr. Somnath Patil: And Cuddapah, of course, will be commissioned in some time in the month of February.
- Mr. Vivek: Okay.
- Mr. Puneet Dalmia: Then we start producing cement. Other than that, we had announced that we are going to do 10 million tons in a phased manner in a special purpose vehicle.
- Mr. Vivek: Okay.
- Mr. Puneet Dalmia: So, we have invested about, you know, 150 crores in that special purpose vehicle and developing these projects, for buying land and you know, developing the limestone mine, and we are

basically, you know, continuing to develop the project sites to be ready for executing those projects as and when we see the market conditions turning favorable.

Mr. Vivek: Okay, and then, you would transfer them to DCBL at a later date?

Mr. Puneet Dalmia: It is 100% owned by DCBL at the moment. It is a 100% subsidiary of Dalmia.

Mr. Vivek: Okay. Just relating to your CAPEX and debt, what would to your estimate be the peak level of debt maybe some time during the course of next year, for executing all these projects?

Mr. Somnath Patil: The peak level of debt next year will be around 3000 crores.

Mr. Vivek: Okay. Now, Puneet, I am revisiting the analyst meet of last year when you had mentioned that CAPEX costs had significantly gone up in the current cycle, partly because of land inflation, partly also because of the metal commodities leading to higher machinery cost, etcetera. Are you seeing some sort of correction there and the current CAPEX, at what costs are they coming at on an EV per ton basis?

Mr. Puneet Dalmia: Yes, that time, I had indicated that the, you know CAPEX visibility that we have without the captive power plant was in the range of 135 to 140 dollars per ton.

Mr. Vivek: Yeah.

Mr. Puneet Dalmia: Our own view is that the machinery prices may get revised and steel prices have already corrected, so the completely new CAPEX may happen at the rate of may be, you know, 15% lower than these prices. So, I am seeing a number close to you know 115 to 120, although these are not backed up by quotes. These are just backed up by my, you know, instinctive estimates.

Mr. Vivek: Okay.

Mr. Puneet Dalmia: So, I think there is a steel price correction which I am factoring in, and the fact that, you know, machinery suppliers will be willing to offer, you know, some discount over, you know, peak of the cycles, but, I think we have to, you know, keep a watch on how the demand-supply situation in the, you know, equipment supplier market develops and how those prices will behave. So, I am just giving an instinctive estimate; that will be 15% to 20% lower than that number.

Mr. Vivek: But in your current two projects which you are in the process of completion, there is going to be no savings on that, I mean, or do you see some savings there also?

Mr. Puneet Dalmia: We do not see any savings in that. In fact...

Mr. Somnath Patil: They were contracted at low prices.

Mr. Vivek: Sorry?

Mr. Somnath Patil: They were contracted at low prices before this inflation caught up.

Mr. Vivek: Okay.

Mr. Somnath Patil: Yeah. So, that is in the range of 70 to 75 dollars per ton.

Mr. Vivek: Okay.

Mr. Somnath Patil: Excluding the power plants.

Mr. Vivek: Okay, that answers my question. Thank you and all the best.

Mr. Somnath Patil: Thank you.

Mr. Puneet Dalmia: Thank you.

Moderator: Thank you very much Sir. Next in line, we have Mr. Jaspreet from Anand Rathi. Please go ahead Sir.

Mr. Jaspreet Singh: Hi Sir and good afternoon.

Mr. Puneet Dalmia: Hello.

Mr. Jaspreet Singh: Sir, just come back to the question that was asked by the previous gentleman. Just correct me if I am wrong. On the other income part this quarter, the income that is there, 1.9 crores does not include the MTM losses, right?

Mr. Puneet Dalmia: No, it does not include the MTM losses.

Mr. Jaspreet Singh: Whereas, in the same quarter last year, there was a M-to-M gain.

Mr. Puneet Dalmia: No, not M-to-M. That is the actual gain.

Mr. Jaspreet Singh: So, 95 crores was the actual gain that was booked on account of selling some securities or equity portfolio? That was...

Mr. Puneet Dalmia: That is right.

Mr. Jaspreet Singh: Okay, and going forward, do you think you would want to stick to this policy of providing for the M-to-M losses on a consistent basis?

Mr. Somnath Patil: On transaction basis.

Mr. Jaspreet Singh: Sorry, on a? Sorry, on an actual transaction basis.

Mr. Somnath Patil: Yeah, actual transaction basis.

Mr. Jaspreet Singh: Fair enough. Thanks. On the current expansion that you are doing, which is at Ariyalur and Cuddapah, Cuddapah is already there and Ariyalur, what are the chances of any further delay, you know, beyond what you just mentioned?

Mr. Puneet Dalmia: I think the chances are very slim.

Mr. Jaspreet Singh: So, this June 2009 what you have given is essentially the clinker commissioning.

Mr. Puneet Dalmia: Sir, the clinker commissioning was in December for Cuddapah; in June

Mr. Somnath Patil: June is Ariyalur one.

Mr. Puneet Dalmia: In Ariyalur, actually, we are planning to commission the cement mill before the clinker line, so you know, the cement mill is likely to get commissioned in May. The clinker is likely to get commissioned in, you know, June or July.

Mr. Jaspreet Singh: Okay, so over there, you will not have much of a gap.

Mr. Puneet Dalmia: That is right. By July, let us say both clinker and cement mill will be commissioned.

Mr. Jaspreet Singh: Alright. So essentially, quarter two is when you get some amount of volumes from that plant?

Mr. Puneet Dalmia: Yes.

Mr. Jaspreet Singh: On the second leg of expansion, you have already touched upon that the 10 million tons that we were planning to have. So, you are essentially saying you have already put in 150 crores in that SPV and you have just put on hold that particular plan?

Mr. Puneet Dalmia: Yes.

Mr. Jaspreet Singh: Okay, and according to you, when is the next, you know, after what kind of time span would that, you know, warrant a relook? The next leg of expansion?

Mr. Puneet Dalmia: Actually, we are constantly relooking at it, you know, in our mind, you know, there is political uncertainty in the world right now, now with the change in leadership in the US and elections coming in India into, you know, in April or May. So, I think we are on a constant state of awareness about, you know, how the external market volatility is changing and we will take a view on a, you

know, spot basis as to when we feel that the timing is right.

Mr. Jaspreet Singh: Okay, so in that case, would it be right to say, you know, see at the industry level, demand from a 9 to 10% is probably the expectation as it might go down to say about 6, 7, or closer to that 7 or 8%. I am talking about the cement demand.

Mr. Puneet Dalmia: Right.

Mr. Jaspreet Singh: I think the key issue being faced by the industry is also the funding, so with that respect, are you referring to all this macro slowdown or?

Mr. Puneet Dalmia: No, I think you know, it is very important for us to make sure that we get the timing of the CAPEX right. So, I think funding is a totally independent question, because it does not matter whose money it is.

Mr. Jaspreet Singh: Right.

Mr. Puneet Dalmia: As custodians of bankers money or our investor's money, you know, we have to outperform the market, and there are two ways to outperform the market in this business. One is by efficiency and branding, and second is in terms of timing your capex or acquisitions correctly. So, I think currently we feel that you know we can just time our capex better by delaying it a little bit, and by you know understanding how the macro-economic forces are operating, and I think it is a question of our internal view about you know macro environments rather than just a question of capital availability. I think capital availability does not drive our business decisions.

Mr. Jaspreet Singh: Okay.

Mr. Puneet Dalmia: Business decisions are driven by the fundamentals and how we feel that the timing is at this point in time.

Mr. Jaspreet Singh: How much would our debt equity be as of today.

Mr. Somnath Patil: 1.6 to 1.

Mr. Jaspreet Singh: On net debt basis, 1.6:1?

Mr. Puneet Dalmia: Yeah.

Mr. Jaspreet Singh: Okay. This new plant that you are planning to put up in that SPV or for that matter the next leg, would you be looking at the region outside South because you are already present like big time in South now, so are you going to look at South itself only.

Mr. Puneet Dalmia: I think you know at this point in time we are developing projects all

over the country, and until we take a concrete decision, you know, we cannot tell you where we will invest first, but I can only say that we are developing projects across the country at this point in time.

Mr. Jaspreet Singh: Okay, and in terms of the supply or you know the industry wise demand-supply that is panning out, what is your feeling as to how much is the incremental pan-India coming up in terms of the capacity, I mean, also including South?

Mr. Puneet Dalmia: The new supply which is expect is about 25 million tonnes per all India and about 16 million tonnes for South next year.

Mr. Jaspreet Singh: That is 2009-2010 you are saying.

Mr. Puneet Dalmia: 2008-2009.

Mr. Jaspreet Singh: 2008-2009, so just about 25 million tonnes pan-India, so we have already added about 16 to 17, so another 8 or 9 left, right?

Mr. Puneet Dalmia: That is right.

Mr. Jaspreet Singh: Okay, how about 11 and 12, sorry, FY '10 and FY '11, which is that is more relevant.

Ms. Nidhi Aggarwal : I think we are expecting about 40 million tonnes in FY '10 at an all-India level, and South probably will be another 25.

Mr. Jaspreet Singh: Okay, okay, and may be a similar number in FY '11 as well?

Ms. Nidhi Aggarwal : 2011 could be lower.

Mr. Jaspreet Singh: Lower, okay.

Ms. Nidhi Aggarwal : This is all based on announcements and whatever there was, so you might actually see, you know, looking at the environment there could be certain delays and deferred decisions.

Mr. Jaspreet Singh: Okay, okay fine. Two last things, one is on account of the kind of next year, on a full year basis, like FY '10, would it be right to say that the on an average the lead distance of the cement players would be higher as compared to what they have seen, I mean if there is a case of you know supply overhang, and that in turn would affect the freight charges marginally. I am just trying to check you know whether lowering of diesel prices, whether there will be any material benefit if at all?

Mr. Puneet Dalmia: I think you know at an industry level, people will try to optimize their cost structure to the extent they can.

Mr. Jaspreet Singh: Right.

- Mr. Puneet Dalmia: I think it is not just determined by average lead distance, even the railroad mix plays a very important role, so you know, I think it is hard to make a generic statement, but there are you know some companies who are putting up new plants and say lead distances may increase. There are some companies may cut production to address the lower capacity utilization in the industry and their lead distances may actually come down, so I have not done an analysis at an industry level to be able to give guidance on whether at industry levels, the lead distances will come down, but in general, I think there is huge amount of focus on cost and managing, you know, optimizing logistics cost also. So, to that extent, you can expect more efficiency and logistics, either because of lead distance or because of railroad mix.
- Mr. Jaspreet Singh: Okay sure, and the last thing on working capital, I mean, how is the working capital situation today vis-à-vis say about you know 9, 12 months back when real estate was like at its...the demand was its peak.
- Mr. Puneet Dalmia: In our case, we don't have too much exposure to large institutional builders. Most of our sales are in the retail segment, only our specialty cements like oil-well cement or railway sleeper we sell in the institutional segment which is just to like 3 or 4 large customers like Reliance, ONGC or Indian Railways. So, we don't have exposure to the real estate sector as some of the other companies. So, in our case, I think receivables are not a burning issue at the moment, but you know clearly there is liquidity issues in the builder segments, and companies who have exposure to that segment are trying to find a way to manage that situation effectively but I know that you know in general the credit has been tightened at industry level.
- Mr. Jaspreet Singh: Alright, okay. Thanks a lot Puneet, and I will get back to you if there is anything else.
- Moderator: Thank you very much sir. Next in line, we have Mr. Naveen Gupta from UBS Securities. Please go ahead sir.
- Mr. Naveen Gupta: Hi Puneet, this question is for you. How do you see the pricing scenario panning out next year given that you are estimating 40 million tonnes of additional capacity coming through.
- Mr. Puneet Dalmia: I think it is fair to assume that there will be pressure on pricing, you know, clearly there is slowdown in demand which we are expecting and there is an increase in supply, so you know, all this points towards pressure on pricing, and I think you know all the players in the industry are prepared for a slight decline. How much will that decline be and for how long it is very hard to predict.
- Mr. Naveen Gupta: Got it, fair enough. Thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions, please press \*1 on your telephone keypad. I repeat, participants who wish to ask questions, please press \*1 on your telephone keypad. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Puneet Dalmia for final remarks.

Mr. Puneet Dalmia: So, once again, I want to thank all of you for joining the call. This has been one of our most challenging quarters in recent times, but all I want to say is that this is aberration because we had a huge hit on other income, volumes and fuels; all of that got bunched together in this quarter. Overall, you know, while we are being cautiously optimistic about the future, I think we are in relatively better part of the world. Also, you know, within India, we are in a better industry because our exposure is totally to domestic demand. Even though we are expecting challenging months ahead in terms of excess supply, I think you know significant correction in energy prices, and excise duty provides us lot more cushion to handle that decline in pricing if at all that happens, and I think consolidating industry structure is also likely to cushion the downside as compared to you know the previous downturns, so we have to prepare for the worst, and therefore we are doing lot of work on cost optimization. Secondly, if I just look at the sugar industry, we are forecasting good times ahead, but there the challenge is to maximize our production and capacity utilization. So, overall, I think you know we aware of the fact that you know the next 18 to 24 months may be challenging and we are doing our best to prepare for it. Also, we are very focused on ensuring that our capex gets completed on time and gets ramped up on time. So, once again, thank you very much for your presence, and we look forward to, you know, staying in touch.

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.

---