

Dalmia Cement (Bharat) Limited
Quarter Four and Annual Earnings Conference Call- Financial Year 2009
May 29, 2009

Moderator: Good afternoon ladies and gentlemen. Welcome to Dalmia Cement annual results investor call. I am Priyanka, the moderator for this conference. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Ms. Nidhi Agarwal. Thank you and over to you ma'am.

Ms. Nidhi Agarwal: Good afternoon all of you and thank you for joining in for our Dalmia Cement (Bharat) Limited annual call. Here, I would just like to invite Mr. Puneet Dalmia to start with the opening remarks. Thank you.

Mr. Puneet Dalmia: Thank you Nidhi. Welcome to all of you on our FY09 annual earnings conference call. I just want to, you know, highlight that for the financial year 09 our gross sales was Rs.1972 crore, up 17% year on year. Our operating EBITDA was Rs.526 crore which was up 6% year on year. Overall, I think, you know, we went through a very difficult liquidity environment in the second half of the year and I think, you know, we navigated it, reasonably well. I look at our story as a volume-driven growth story and I think, you know, one of the key aspects of this growth story is that we are present in the high growth Southern market and after the election results of 2009 where the UPA government has, you know, gotten a great mandate in Kerala, Tamil Nadu, and Andhra Pradesh, I expect that there will be a very high focus on infrastructure spending which will continue the high demand growth in the Southern region and I think we have created capacity in the right markets ahead of time. If I look at the growth rate in the Southern region, it was at 10.3% as compared to the all India growth rate of 8.4%. So, it was 2 percentage points higher than the all India growth rate. I also think that Andhra Pradesh has actually demonstrated, you know, a very unique development model where the growth rate has been, you know, in the high teens in the last three years and this is largely due to focus on irrigation and low cost housing and I think that momentum will continue. I also think that similar models will be followed by other states as well. I also believe that with Mr. Kamal Nath taking over as the Roads and Transport and Highways Minister, we can expect, you know, a big thrust on road development and that will further give a, you know, boost to cement demand. So, I think we have presence in the right market and we have created capacity ahead of time to, you know, cash in on the demand growth which is expected in the coming years. I also want to look at, you know, how the company has performed over the last five years from financial year 05 to 09. Our, you know, sales growth has been about 40%, our EBITDA growth has been 70%, and I think we have demonstrated an ability to grow without, you know, dilution. We have built critical mass in this business. Our total capacity in Dalmia Cement is likely to be around

9 million tonnes this year. If I add the economic interest of 22% in OCL which is about 4 million tonnes in capacity, our total capacity on an economic interest basis is about 10 million tonnes and I think slowly and steadily over the last, you know, five years, we have built critical mass in this business and I think now the cash accruals are likely to be, you know, pretty significant. It can, you know, on their own, fund significant growth in the future. So, I think the Company is very well positioned to leverage the, you know, stable government in the center and, you know, with the thrust on infrastructure and on, you know, we believe the cement consumption is likely to grow well and the company is likely to benefit from it. I also see, you know, a very positive outlook in the sugar business this year, prices are firm, and even though, you know, production continues to be a challenge because of short cane availability, we have taken some steps to process raw sugar and I think we did import, you know, couple of consignments at the right time and I think the sugar business also is likely to do well in the current year. I am open to questions now.

Mr. Somnath Patil: Further, we would also like to add...this is Somnath Patil, we would also like to add that we commissioned our Kadapa plant in the month of March and the other plant at Ariyalur in the state of Tamil Nadu will be commissioned...the grinding unit has been commissioned now but the clinker plant will be commissioned in the second quarter of this year. So, we are open to questions if any.

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

Mr. Manish Goyal: Yeah, good afternoon sir.

Mr. Puneet Dalmia: Good afternoon Manish.

Mr. Manish Goyal: First is on the industry wide, how is the capacity building up and especially what we believe is in coming times, South is going to see maximum addition of the capacity. So, can you just throw some light.

Mr. Puneet Dalmia: No, I think overall basis we believe that the capacity utilization at an industry level is likely to drop to between, you know, in the high 70s or the low 80s and I think South will be very similar. However, because some plants are getting delayed in commissioning, we expect that this pressure is likely to come only in the second half of the year or probably close to the last quarter. Having said that, I think given the fact that most of the capacity addition is being done by existing players...

Mr. Manish Goyal: Okay.

- Mr. Puneet Dalmia: ...we expect the pricing environment, you know, to be fairly stable and not very volatile.
- Mr. Manish Goyal: No, but if in case if we are looking at capacity utilization below say 80%...
- Mr. Puneet Dalmia: Yeah.
- Mr. Manish Goyal: ...now if prices are firm and I think it is definitely feasible or remunerative for everyone to bring in the capacity as fast as possible and everyone would want to do that, so don't you think there could be pressure on pricing, number one, and also now with raw material prices also going down, the profitability of many cement companies have been improving. So, in that context and with increase in capacity, you will have the operating leverage in place. So, don't you think that will probably put pressure on pricing?
- Mr. Puneet Dalmia: I think there will be pressure on pricing. I did not say that there will not be any pressure on pricing, but I think there are two factors to cushion that pressure. One is we expect, you know, better than earlier demand growth and secondly, you know, as I said, because the incremental capacity which is getting commissioned and ramped up by existing players, we do not expect a very irrational pricing behavior.
- Mr. Manish Goyal: What kind of growth you are seeing all India for FY10 and in South sir?
- Mr. Puneet Dalmia: See, the growth in FY09 has been around 10.3% for South...
- Mr. Manish Goyal: Okay.
- Mr. Puneet Dalmia: ...8.4% all India.
- Mr. Manish Goyal: Okay.
- Mr. Puneet Dalmia: I think we would be happy if the growth is around, you know, 8% in South this year and around 6-7% All India, but having said that, you know, depending on how quickly the infrastructure program takes off, these numbers could give a positive surprise.
- Mr. Manish Goyal: Okay. And coming to Dalmia's capacity addition, as far as Kadapa plant which was started in March, now what is the status in terms of how is the capacity utilization and by when do you think you will have fairly decent capacity utilization?
- Mr. Puneet Dalmia: I think, you know, this is the first year of operation and initially we do go through some teething troubles at, you know, all plants in terms of ramping up. So, we would be happy if we can do about 60% to 70% capacity utilization this year.

- Mr. Manish Goyal: So, 60-70%, probably you will reach your run rate by year end right?
- Mr. Puneet Dalmia: That's right.
- Mr. Manish Goyal: So, say for the full year, what kind of production we can expect, incremental production from this plant itself we can expect?
- Mr. Puneet Dalmia: I think, you know, it is hard for me to give that number because, you know, we will look at our, you know, capacity servicing from an overall perspective and depending upon, you know, how the demand supply shapes up, we will ramp up or ramp down production from, you know, Tamil Nadu plants or the Andhra Pradesh plant. So, overall we have tested the plant, you know, we are able to produce 100% capacity, but, you know, given the logistic constraints around the plant and our entry into new markets, I think that will take some time.
- Mr. Manish Goyal: And as far as the entry in AP market, the new plant which we have, what is probably in terms of selling, how far are we going in terms of kilometers, selling radius?
- Mr. Puneet Dalmia: So, we are selling between 400 to 500 kilometers from the plant.
- Mr. Manish Goyal: Okay. And as far as your new plant Ariyalur is concerned, you said you have started the clinker plant.
- Mr. Puneet Dalmia: No, we started grinding in the month of like just a couple of days ago actually.
- Mr. Manish Goyal: Oh, you have started grinding also?
- Mr. Puneet Dalmia: Yeah, only grinding. Our kiln is likely to get commissioned only in second quarter.
- Mr. Manish Goyal: Okay, okay, okay, okay. And also can you tell us what is your total capital employed, what will be your total capital employed in your cement business as on date?
- Mr. Puneet Dalmia: As on March 09?
- Mr. Manish Goyal: Assuming that now you have this plant also operational, what would be your total capital employed in the cement business till now?
- Mr. Somnath Patil: Till now, it is 1,450 crore.
- Mr. Manish Goyal: But debt capital employed should be the net of I think current liabilities that is how I think, I think that is not the correct way of looking at it. What you give in a segmental...
- Mr. Somnath Patil: Yeah.

- Mr. Manish Goyal: ...actually that is net of the current liabilities or something, net of working capital I believe?
- Mr. Somnath Patil: No, net current asset is added to that, okay. It is not net of that, net current assets will be added to that, to the net fixed asset and so that figure comes to 1,450 crore.
- Mr. Manish Goyal: But if I want till date what you have been...because in two plants itself you have invested 1300 crore I believe.
- Mr. Somnath Patil: No, the second plant is yet to be commissioned. 1300 crore, yes, that is right, we have invested.
- Mr. Manish Goyal: So, till date say for 9 million tonnes, what would be your total capital employed in the cement business, that is what I wanted to understand.
- Mr. Somnath Patil: No, this is the figure, 1450, because our existing plant is all depreciated plant.
- Mr. Manish Goyal: So, what would be your work-in progress for the cement? Okay, let's take 1450 plus what would be your work-in progress for this plant which is getting...what was commissioned now?
- Mr. Somnath Patil: See, the total work in progress as at year end...
- Mr. Manish Goyal: Yeah.
- Mr. Somnath Patil: ...for us is around 700 crore and bulk of it is for the Ariyalur plant which is yet to be commissioned.
- Mr. Manish Goyal: Okay, okay. So, we should ideally take 2100 crore.
- Mr. Somnath Patil: Yeah, you can, but this is the right way of looking at it, 1450, net of other current assets.
- Mr. Manish Goyal: Okay. And on the sugar, we have a capacity of 22,500 TCD right?
- Mr. Puneet Dalmia: Yeah.
- Mr. Somnath Patil: Right.
- Mr. Manish Goyal: And how is the sugarcane availability because in quarter four also our crushing was down 60%, how is the availability of sugarcane and can you just throw some light how it will shape up for the current year?
- Mr. Puneet Dalmia: Sugarcane availability was, you know, quite poor last year and, you know, most plants were in our region had operated only at about 35% to 40% of their installed capacity. We also saw very significant

drop in recoveries as you can see on page 23 of Earnings Release

Mr. Manish Goyal: Yeah, that has dropped to 9%.

Mr. Puneet Dalmia: That's right. However, this year we believe the, you know, numbers to be likely better, but I think the agro climatic conditions play a, you know, very big role in this, so it is a hard thing to forecast, but I believe that, you know, we should be able to, you know, about 2 lakh tonnes this year instead of 120,000.

Mr. Manish Goyal: 2 lakh tonnes of production?

Mr. Puneet Dalmia: That's right.

Mr. Manish Goyal: Okay. And what is your current inventory level you are carrying?

Mr. Somnath Patil: Yeah, that is 124,000 tonnes.

Mr. Manish Goyal: And at what rate?

Mr. Somnath Patil: This is at about...

Ms. Nidhi Agarwal: About 230 crore.

Mr. Somnath Patil: It is about 230 crore, so it is around 16.

Ms. Nidhi Agarwal: Manish...

Mr. Manish Goyal: Yeah, but...okay, so basically what I recollect is in quarter three, you had valued your inventory at 17 rupees, that is what I have in my notes, that was at roughly 17,000 rupees per tonne and at that point of time your inventory was 110,000 and now it has gone up to 124,000 tonnes.

Mr. Somnath Patil: Can you repeat the question?

Mr. Manish Goyal: See, I asked what is your carry forward inventory of sugar and at what rate you are carrying forward?

Mr. Somnath Patil: Yeah, it is 124,000 tonnes and we are carrying it forward at the rate of 18,000 rupees per ton.

Mr. Manish Goyal: 18,000.

Mr. Somnath Patil: Which is at cost.

Mr. Manish Goyal: Okay. And you are expected to produce 2 lakh tonnes more this year?

Mr. Somnath Patil: Yeah, I mean...yeah.

- Mr. Manish Goyal: What is the sugarcane price you are paying currently?
- Mr. Somnath Patil: 140 rupees per quintal.
- Mr. Manish Goyal: Okay. And this 2 lakh tonnes when you said, this would be, like what are you factoring in terms of how much your sugarcane availability will go up?
- Mr. Somnath Patil: Actually you see last year, I mean in FY09, the availability was extremely poor, so we produced only 106,000 tonnes.
- Mr. Manish Goyal: Yeah.
- Mr. Somnath Patil: And the year before last we produced 2.5 lakh tonnes.
- Mr. Manish Goyal: Okay.
- Mr. Somnath Patil: So, we feel that this year because of very good prices, there will be more diversion towards cane production and therefore the availability should improve, but quite frankly, at this point of time, it is slightly early to say.
- Mr. Manish Goyal: Okay.
- Mr. Somnath Patil: But we are forecasting that kind of a situation where we will be able to produce about 2 lakh tonnes.
- Mr. Manish Goyal: Okay. And coming back to cement, in terms of last quarter con call, you said that you had certain inventory of high cost coal.
- Mr. Somnath Patil: Yeah.
- Mr. Manish Goyal: Anything on that.
- Mr. Somnath Patil: Yeah, we are still carrying some high cost coal of about 40,000 tonnes, but otherwise rest of the coal has been consumed.
- Mr. Manish Goyal: Okay.
- Mr. Somnath Patil: Yeah. So, in the first quarter, we will have some high cost coal to be consumed in Kadapa, at the new plant basically.
- Mr. Manish Goyal: And now at what...I think that was at some 200 dollars, right?
- Mr. Somnath Patil: Yeah, around 190...185-190 dollars.
- Mr. Manish Goyal: And now at what price are you contracting?
- Mr. Somnath Patil: Now, we are contracting at about, all inclusive, about \$80-\$85
- Mr. Manish Goyal: Okay, okay. So, I think we should see the benefit of lower coal cost

only from quarter two?

Mr. Somnath Patil: Yeah.

Mr. Manish Goyal: Okay. And can you give me what is your total investment book and can you just give us some sense in terms of the breakup of that, I think in your presentation it is mentioned some 600 crore.

Mr. Somnath Patil: Yeah.

Mr. Manish Goyal: So, can you just give us a breakup and what was...last year, we had incurred a loss. On a standalone, it was roughly some 30 plus crore and on a consolidated it was some 75 crore. So, can you just clarify on this.

Mr. Somnath Patil: Yeah, we incurred a loss of around 35 crore on a net basis in Dalmia Cement.

Mr. Manish Goyal: Yeah.

Mr. Somnath Patil: And on a consolidated basis, the loss is higher because of loss incurred by the subsidiaries, not only on the equity but also on some other sales that happened, some capital asset sale.

Mr. Manish Goyal: Okay.

Mr. Somnath Patil: So...

Mr. Manish Goyal: Can you give us a breakup of your investment book, how is it looking, your investment basically of 600 crore?

Mr. Somnath Patil: Yeah, out of that 200 crore is our investment in OCL which is more of a strategic nature.

Mr. Manish Goyal: And this is how much stake in the company, in OCL?

Mr. Puneet Dalmia: Around 22%.

Mr. Somnath Patil: Around 22%.

Mr. Manish Goyal: Okay. And what about others?

Mr. Somnath Patil: Then, we have equity in unquoted subsidiaries, etc., that is about 160 crore.

Mr. Manish Goyal: Okay.

Mr. Somnath Patil: This also includes our investment in our subsidiary companies.

Mr. Manish Goyal: This would be primarily for your SPV which you have formed for putting up cement capacity?

- Mr. Somnath Patil: Yes, that's right, 150 out of that is for that purpose and another 10 crore is in various subsidiaries...
- Mr. Manish Goyal: Okay.
- Mr. Somnath Patil: ...which will be meant for acquiring land, etc.
- Mr. Manish Goyal: Okay. And so this is roughly 360. And what else?
- Mr. Somnath Patil: Then, we have equity investments of about 130 crore.
- Mr. Manish Goyal: Equity investments?
- Mr. Somnath Patil: Equity investments.
- Mr. Manish Goyal: And this is valued as on 31st March?
- Mr. Somnath Patil: Yeah, this has cost, what I am telling you at our cost to us.
- Mr. Manish Goyal: Okay, cost to you, okay. And on this, have you been taking mark to market gains or losses?
- Mr. Somnath Patil: No, we have not done that. We have given that by way of a footnote in the annual accounts.
- Mr. Manish Goyal: So, what would be the value of this 131 crore?
- Mr. Somnath Patil: That is about 80 crore, but at this point of time, that value has gone up to over 100 crore.
- Mr. Manish Goyal: Okay.
- Mr. Somnath Patil: As of 31st March, the value was much lower.
- Mr. Manish Goyal: Okay.
- Mr. Somnath Patil: But since then, if you look at the market prices today...
- Mr. Manish Goyal: Yeah.
- Mr. Somnath Patil: ...we have recouped around 30 to 40 crore.
- Mr. Manish Goyal: Okay. So, this is roughly 500 crore and what is the balance, another you had some 600 crore plus.
- Mr. Somnath Patil: Yeah, we have something in mutual funds.
- Mr. Manish Goyal: How much?
- Mr. Somnath Patil: That is about 60 crore.

- Mr. Manish Goyal: This is liquid mutual fund?
- Mr. Somnath Patil: Yeah, liquid mutual funds, debt schemes.
- Mr. Manish Goyal: Okay. And how much apart from this, do you have any cash or cash equivalent?
- Mr. Somnath Patil: Yeah, we have about 55 crore in cash and bank balances.
- Mr. Manish Goyal: 55 crore cash.
- Mr. Somnath Patil: Yeah.
- Mr. Manish Goyal: Which is over and above this...
- Mr. Somnath Patil: Yes.
- Mr. Manish Goyal: And what is your CAPEX plan, how much CAPEX you incurred last year and what is your CAPEX plan this year?
- Mr. Somnath Patil: Last year, we incurred around 900 odd crore...930 crore.
- Mr. Manish Goyal: And this year, what is your plan?
- Mr. Somnath Patil: About 400 crore, 350 to 400.
- Mr. Manish Goyal: So, this would be towards what?
- Mr. Somnath Patil: This would be mainly towards this Ariyalur plant, Greenfield project.
- Mr. Manish Goyal: Okay. And sir, what is the reason why we incurred...we showed a loss in other income to the tune of 35 crore, what was that loss for?
- Mr. Somnath Patil: See, it is basically...it is on account of sale of shares. This is the actual loss that we have incurred which we have booked. We have not gone on MTM basis.
- Mr. Manish Goyal: Okay.
- Mr. Somnath Patil: Whatever loss we have actually incurred, we have taken it into the books.
- Mr. Manish Goyal: And what is the incremental loss in the consolidation, some 40 odd crore...
- Mr. Somnath Patil: Yeah, that is also on account of some capital assets sold by some of the subsidiary companies and some equity portfolio which was liquidated by the subsidiary companies.
- Mr. Manish Goyal: Thanks sir, thanks a lot. I will come back for more questions. Thanks

a lot.

Mr. Somnath Patil: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Jinesh Gandhi from Motilal Oswal Securities. Over to you sir.

Mr. Jinesh Gandhi: Hi. My question is on your Kadapa plant, you mentioned that you will be achieving about 60% to 70% utilization by year end. In a scenario where demand growth in your markets continue to be very strong like we had seen in the past of about 12% to 13%, if need arises, would we be able to achieve about 80% to 90% utilization by yearend?

Mr. Puneet Dalmia: Yes, I think if need arises, we will be able to do that.

Mr. Jinesh Gandhi: Okay. And secondly you mentioned about the pan India growth of about 6% to 7%, assuming that is the growth, if that happens, then what kind of overcapacity you would see in systems on pan India basis and in your markets?

Mr. Puneet Dalmia: As I said, the capacity utilization is likely to drop to around, you know, 80% levels...

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: ...and, you know, this would mean that there is about, you know, 40 to 50 million tonnes of surplus on an All India basis and about half of this surplus will be in the Southern market.

Mr. Jinesh Gandhi: Okay. And you mentioned that you would also need to enter new markets primarily in AP.

Mr. Puneet Dalmia: And Karnataka.

Mr. Jinesh Gandhi: And Karnataka. So, what would be our strategy for those markets, I mean, how do we intend to gain market share in those already competitive markets.

Mr. Puneet Dalmia: Well, I am not going to discuss our marketing strategy in detail on this call.

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: But all we can say is that, you know, we have been seeding the Karnataka market even before our plant, Kadapa plant got commissioned...

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: ...and we did achieve 3 lakh tonnes of sale in Karnataka, you know, in financial year 07.

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: And I think, you know, we have a strategy by which we will be able to make the transition smooth and, you know, without disrupting, you know, the scenario quickly, we will continue to retain premium positioning for, you know, our brands and new markets as well.

Mr. Jinesh Gandhi: Okay. Okay, so effectively at least you will be...you would be at par in pricing with the leaders in those markets that is what you are aiming for?

Mr. Puneet Dalmia: That's right.

Mr. Jinesh Gandhi: Okay, okay. Normally, I mean, normally when a new player enters a market, it is normally at a discount to existing players, so nevertheless, I mean, we may discuss this strategy in detail later. Secondly, in terms of your coal, we have not seen major benefit in this quarter. What would be our average cost of coal in this quarter, blended as well as imported?

Mr. Somnath Patil: Yeah, it will be around 6,000, close to 6,000 rupees per tonne.

Mr. Jinesh Gandhi: Okay.

Mr. Somnath Patil: That is because of the high cost coal that we are carrying.

Mr. Jinesh Gandhi: Right. And this is primarily imported coal cost?.

Mr. Somnath Patil: Yeah, primarily imported.

Mr. Jinesh Gandhi: Okay, okay. And how is the situation in terms of domestic coal, I mean, although we don't rely too much on domestic coal, are we seeing any improvement there in terms of availability and prices of open market coal?

Mr. Puneet Dalmia: Yes, for, you know, plant in OCL, you know, the government is giving us coal at linkage prices, but, you know, we only get about 75% of our required quantity through the government. So...

Mr. Jinesh Gandhi: Okay, okay. And how is the pricing on the open market price, has it come down on line with imported coal prices or it is still at very high levels.

Mr. Puneet Dalmia: I think Indian market is still not priced at international parity and given the fact that, you know, Indian power plants are importing coal from international markets, I do not see Indian prices going down significantly. I mean, there might have been a pre-election blip, etc., but, you know, I foresee coal prices in India, you know, going towards international parity directionally.

- Mr. Jinesh Gandhi: Okay, okay, right. And lastly in terms of our long-term plans on the cement side, some time back you had announced of 10 million tonne, I mean, primarily a blueprint on that, any further update on that, are we working on that or that is on backburner as of now?
- Mr. Puneet Dalmia: As I mentioned even in our previous calls that we had kept that project on hold given the, you know, magnitude of the economic uncertainty in the second half of 09.
- Mr. Jinesh Gandhi: Right.
- Mr. Puneet Dalmia: But we continuously keep reviewing the domestic scenario and the global scenario and I think we will take a call and we will announce the projects as and when we take a decision internally.
- Mr. Somnath Patil: Meanwhile we continue our efforts on incubating the projects like the land acquisition and mining lease and environmental clearance. So, incubation processes are on.
- Mr. Jinesh Gandhi: Okay, that process is on. So, effectively we have some sites in mind?
- Mr. Puneet Dalmia: Yeah.
- Mr. Somnath Patil: yeah.
- Mr. Jinesh Gandhi: Okay. Okay, that's all from my side. Thanks.
- Mr. Puneet Dalmia: Thank you.
- Mr. Somnath Patil: Thanks.
- Moderator: Thank you very much sir. Next in line, we have Mr. Achal from Deutsche Bank. Over to you sir.
- Mr. Achal: Good afternoon sir.
- Mr. Puneet Dalmia: Good afternoon.
- Mr. Somnath Patil: Good afternoon.
- Mr. Achal: Yeah. Sir, I have some questions related to your inventory policy. For how many days, especially coal, you maintain the inventory?
- Mr. Somnath Patil: We maintain the inventory for about 40 to 50 days. 40 days is the ideal thing for us.
- Mr. Achal: Okay sir.
- Mr. Somnath Patil: Yeah.

Mr. Achal: And going back to your figure, you have said that right now you have 40,000 tonnes of high cost coal.

Mr. Somnath Patil: Yeah.

Mr. Achal: So, for how many months this is going to be with you, within how many days it will be consumed?

Mr. Somnath Patil: This will be consumed within actually 1-1/2 because this is at Kadapa...

Mr. Achal: Okay.

Mr. Somnath Patil: ...and there the ramp-up is happening, so it will be consumed within 1-1/2 to 2 months.

Mr. Achal: Okay.

Mr. Somnath Patil: Yeah.

Mr. Achal: And as such, you are importing your coal.

Mr. Somnath Patil: Yes.

Mr. Achal: So, do you have any FX hedges in place?

Mr. Somnath Patil: Yeah, we have FX hedges. We have a policy of taking hedge for 50% of our exposure.

Mr. Achal: Okay.

Mr. Somnath Patil: To just cover it and the other 50% we keep it open and watch the market and if we feel we need to cover that also, we do that, that too.

Mr. Achal: Okay. And right now, you said that you are booking coal at 85 dollars, so are you fixing any asset hedges?

Mr. Somnath Patil: No, at this point of time we have not done any hedges.

Mr. Achal: Okay. Sorry, do you intend to hedge the coal prices also?

Mr. Somnath Patil: We are watching at the options and structures available, but at this point of time we have not taken any decision on that.

Mr. Achal: Okay. And one last question. I wanted to know about the mark to market for the FX hedges.

Mr. Somnath Patil: At this point of time, as we speak, it is about 8 crore negative.

Mr. Achal: Okay.

- Mr. Somnath Patil: Yeah.
- Mr. Achal: And looking at your debt figures, can you share the debt repayment schedule?
- Mr. Somnath Patil: Yeah, next year we are repaying around 113 crore.
- Mr. Achal: Okay.
- Mr. Somnath Patil: And about more than 750 crore is getting paid out after five years.
- Mr. Achal: Okay. And what is the peak debt according to you, what will be the peak debt?
- Mr. Somnath Patil: In the next, in 10, FY10, it will be around say 2500 crore.
- Mr. Achal: Okay. And what will be the approximate cost of funding of this debt?
- Mr. Somnath Patil: This debt will be funded, total average cost will be around 9.5%.
- Mr. Achal: Okay. Thank you sir, that's from my side.
- Moderator: Thank you very much sir. Next in line, we have Mr. Rakesh Arora from Macquarie. Over to you sir.
- Mr. Rakesh Arora: Good afternoon sir. Sir, my question is on your comment on All India demand growth will be around 6% to 7%. Now, you have started the year with a 12% growth in April, don't you think that 6% to 7% is a pretty pessimistic estimate?
- Puneet Dalmia: No, I told you that, you know, there is always a lag in the industry. So, you know, currently all the projects which were in pipeline are getting completed.
- Mr. Rakesh Arora: Right.
- Mr. Puneet Dalmia: So, you know, there has been a major issue in the real estate market and the industrial CAPEX segment, but if the infrastructure, you know, demand takes off, and then I think we will see, you know, positive surprise to these numbers. So...but still I think, you know, global situation is still not good and even though there are, you know, some positive signs in the last quarter, you know, I am still a little bit cautious in my outlook, but having said that, you know, I also said that, you know, the vote in our 2009 elections is a vote for development and I think we have a very stable government at the center. We have, you know, a very positive, you know, outcome in the Andhra Pradesh elections and, you know, UPA government in Tamil Nadu as well. So, you know, there could be a very big thrust on infrastructure which could take off sooner than we all expect. So, these numbers may, you know, be higher than what I am saying also.

- Mr. Rakesh Arora: So, my second question sir is on Andhra Pradesh.
- Puneet Dalmia: Yeah.
- Mr. Rakesh Arora: Because clearly Andhra Pradesh is the bellwether state for cement.
- Mr. Puneet Dalmia: Yeah.
- Mr. Rakesh Arora: It appears that Andhra Pradesh is losing momentum in terms of demand growth, what is your study on whether the irrigation projects and others are nearing the completion stage or...
- Mr. Puneet Dalmia: My sense is there is still, you know, huge headroom for continued growth. I think there was a worry that if there is a change in government whether the policies will continue or not, but now with the Congress government back in Andhra Pradesh, you know, I think they are going to be very strongly behind their earlier policies and we expect, you know, significant growth driven by irrigation and low cost housing to continue in Andhra Pradesh.
- Mr. Rakesh Arora: Right. And sir, you also mentioned that some other states are looking to emulate Andhra Pradesh, so which are the ones which come to your mind?
- Mr. Puneet Dalmia: I think actually, you know, all the four Southern states I know are looking at it, like Karnataka, Tamil Nadu, and Kerala. I also know that, you know, there have been some talks in East also, but I think how soon will governments adopt it and roll it out is something which remains to be seen.
- Mr. Rakesh Arora: And on Southern market specifically...
- Mr. Puneet Dalmia: Yeah.
- Mr. Rakesh Arora: ...the conversion factor has really been steady at around 1.28-29, but it has lagged the All India average quite significantly. So, do you think there is any fresh impetus to having ready cement now or will continue with this kind of conversion factor?
- Mr. Puneet Dalmia: No, I said that I think the conversion factor in the industry is likely to come down because as the buyer profile shifts from retail to institutional and infrastructure takes off, a lot more of OPC will be required in this country. So, that will put a downward pressure on consumption factor and, in fact, to that extent, you know, some capacity which is stated in the, you know, as name plate...
- Mr. Rakesh Arora: Yeah.
- Mr. Puneet Dalmia: ...they actually, you know, have come down as well. So, it will have a positive impact on capacity utilization if the product mix shifts.

- Mr. Rakesh Arora: Also, do you see this effect of, you know, power plants can now charge for fly ash, is there any material change you think can happen through the usage of fly ash?
- Mr. Puneet Dalmia: No, I don't think so. Sorry, what...
- Mr. Somnath Patil: ...with availability of fly ash with new power plants coming up.
- Mr. Rakesh Arora: Okay.
- Mr. Somnath Patil: So, I think fly ash cost should come down going forward.
- Mr. Rakesh Arora: Do you think so, okay.
- Mr. Somnath Patil: Okay.
- Mr. Rakesh Arora: Because the feelers in other regions are that it is going up.
- Mr. Somnath Patil: Yeah, but in due course of time, with all this large ultra mega power plants coming up...
- Mr. Rakesh Arora: Right.
- Mr. Somnath Patil: ...there is surely going to be a surplus of fly ash, a lot of fly ash availability.
- Mr. Rakesh Arora: Right. And sir, finally on your new plants, do you think any of your operating parameters will be much better than the earlier one so that the cost would be lower or it will be more or less same?
- Mr. Puneet Dalmia: I think our Andhra Pradesh plant is right on the, you know, pithead, so our raw material costs are likely to be lower. Also, it is a state-of-the-art plant, hence we expect fuel consumption also to be lower. So, to that extent, I think, you know, cost of production in the Andhra Pradesh will be lower than our Tamil Nadu plant. However, you know, we have to, you know, finally see how far we have to go to sell.
- Mr. Rakesh Arora: Correct, yeah.
- Mr. Puneet Dalmia: Whether our logistic costs will offset the, you know, lower production cost is something that we will know once our plant stabilizes.
- Mr. Rakesh Arora: Right, because your low logistic cost was the main reason for your high profitability.
- Mr. Puneet Dalmia: Right.
- Mr. Rakesh Arora: So, that advantage might get a bit under pressure.

- Mr. Puneet Dalmia: Yeah. I think apart from low logistic cost, it was also, you know, brand premium in all our markets.
- Mr. Rakesh Arora: Right.
- Mr. Puneet Dalmia: So, you know, the fact that we are entering new markets and we may have to go a little bit further may in the short term impact margins, but I think over the long term we still believe we will deliver superior margins in the top quartile of the industry.
- Mr. Rakesh Arora: Right. Finally sir, on your group restructuring, when will we be able to see all the cement businesses together?
- Mr. Puneet Dalmia: Well, I can't answer that. I think, you know, it is up to the Board of the two companies to decide, but I personally agree that, you know, putting everything under one roof will create a lot of value. So, I think we will examine this seriously, but at the end of the day it is a shareholder call and a Board call.
- Mr. Rakesh Arora: Right. Thank you sir.
- Mr. Puneet Dalmia: Thank you.
- Moderator: Thank you very much sir. Next in line, we have Ms. Archana from Edelweiss Securities. Over to you ma'am.
- Ms. Archana: Hi Puneet. How are you?
- Mr. Puneet Dalmia: Very well Archana, thanks.
- Ms. Archana: A lot of questions have got answered, just a couple of questions more. Puneet, we did mention about increase in lead distance after commissioning of new capacities. What is the kind of lead distance you are looking at?
- Mr. Puneet Dalmia: I told you from our Andhra Pradesh plant, it is likely to be in the range of 400 to 500 kilometers.
- Ms. Archana: 400 to 500. And are you looking at increase in other costs like, you know, higher marketing spend and all?
- Mr. Puneet Dalmia: Well, initially maybe, but I think it should stabilize, you know, fairly quickly within a year, year and a half.
- Ms. Archana: Sure. Also we discussed about, you know, total surplus that you are looking at this year would be in the range of 40 to 50 million tons.
- Mr. Puneet Dalmia: Yeah.
- Ms. Archana: Now, this is a huge number. What kind of capacity addition are you factoring in this year?

Mr. Puneet Dalmia: We are thinking that at an All India level, the capacity addition is likely to be in the range of 60 million tons and in South it is likely to be in the range of, you know, 22 million tons.

Ms. Archana: This is the installed addition you are talking about?

Mr. Puneet Dalmia: Yeah, but, you know, this is not the effective capacity because they will take time to ramp up and depending upon what time of the year they get commissioned, you know, we don't get, you know, the full year capacity for some of the plants which are commissioned during the year.

Ms. Archana: Of course. And you spoke about blending coming down because of lot of projects now you said shifting to the infra side.

Mr. Puneet Dalmia: Yeah.

Ms. Archana: Are you noticing any shift in blending at the ground level as of now, is anything on that front happening?

Mr. Puneet Dalmia: Yes, we have noticed it, you know, in a few months prior to the elections, but then there was a sudden demand surge which none of us expected. So, to take care of that, I think the blending numbers did go back, but, of course, there was no cement available, capacities were getting delayed and I think we were witnessing a shift to OPC in the northern markets, but when the Pakistan demand, you know, basically Pakistan supply evaporated, a lot of that demand was available to Indian players, so the blending ratio went back in favor of PPC, but I think if you look at the next 12 months, I expect the blending ratio at an industry level to come down.

Ms. Archana: Okay. Another thing on the capital cost Puneet, what would be the current capital cost?

Mr. Puneet Dalmia: I think in the peak of the market without power plants for a Greenfield project, it went to between 130 and 150 dollars per ton because there were significant infrastructure spends on lands, railways, etc., but in the current market I think those numbers may come down by 15% to 20% depending upon the site.

Ms. Archana: So, it is more in the range of about 450 to 500 crore.

Mr. Puneet Dalmia: That's right.

Ms. Archana: Okay. And has the gestation period changed for the 1 million ton, has it like come down or does it remain in the range of 2, 2-1/2 years, 3 years?

Mr. Puneet Dalmia: I think it remains in the period of 2 to 2-1/2 years if you look at a Greenfield project, you know. Some Brownfield opportunities, you

know, where you are just adding balancing equipment, etc., you know, may be quicker because you don't have to buy land, you don't have to invest in infrastructure like railway siding, etc.

Ms. Archana: Sure.

Mr. Puneet Dalmia: But for Greenfield projects, I still think the commissioning time is between two and three years.

Ms. Archana: Okay. That's it from my side Puneet. Thanks a lot.

Mr. Puneet Dalmia: Thanks Archana.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Vivek Maheshwari from CLSA. Over to you sir.

Mr. Vivek
Maheshwari:

Hi sir. Most of my questions have been answered, but just one thing as you mention about the surplus and, you know, new capacities and all that, what is your view on pricing and although you mentioned that you don't anticipate much pricing drop, but what kind of drops that you are looking at in FY10 that can be a possibility according to you?

Mr. Puneet Dalmia: I think that is for you people to predict. I think...but overall as I said, I do expect some pricing pressure, but it will be cushioned by the fact that demand growth may be, you know, more than what all of us expect and it may be cushioned also by the fact that most of the incremental capacity has been added by long-term players and hence I expect rational, you know, pricing behavior amongst them. So, I think there will be pressure, how much it will drop is hard to say.

Mr. Vivek
Maheshwari:

Sure, sure. But you expect a limited drop, that is what right?

Mr. Puneet Dalmia: Yeah, I don't expect a very, very significant correction.

Mr. Vivek
Maheshwari:

Right. But, you know, there are players including you who have, you know, kind of multiplied the capacity, so, you know, I mean understanding in terms of, you know, operating the plant at much lower utilization rates. So, do you think that would be so easy because given that there are a quite a lot of players in South India who are adding capacity unlike North where, you know, there are just two or three players who would be adding capacity this year.

Mr. Puneet Dalmia: As I said, I think it takes time for plants, new plants to ramp up. There are lots of constraints in India with respect to infrastructure, with respect to, you know, power availability. Many of the states that we are operating in are seeing power cuts and that is affecting capacity utilization. You know, some plants have inadequate rake availability, so even though we have orders we can't fulfill those

orders because of logistics contracts. I also believe that the cement/clinker ratio will come down, so even though the industry talks of a nameplate capacity number which shows an 80% capacity utilization number at a nameplate level...

Mr. Vivek
Maheshwari:

Right.

Mr. Puneet Dalmia: ... I think with all these constraints with respect to the power availability, with respect to wagon availability, and with respect to the fact that cement/clinker ratio will come down, I think plants may actually be operating at a, you know, maybe 88% to 90%, you know, level. So, I am not seeing, you know, a huge pressure in at least the first six to nine months of this year, but after that we will have to wait and watch how the situation develops.

Mr. Vivek
Maheshwari:

Understood. Right, thank you so much sir.

Moderator:

Thank you very much sir. Next in line, we have a followup question from Mr. Achal from Deutsche Bank. Over to you sir. Mr. Achal, please go ahead.

Mr. Achal:

Yeah, it is answered. Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad now. Next in line, we have Mr. Hitesh Jain from Enam Securities. Over to you sir.

Mr. Nitesh Jain:

Hi, Nitesh over here. You said you are looking at a capacity addition of 60 million tonnes, right?

Mr. Somnath Patil:

All India.

Mr. Nitesh Jain:

Yeah, All India FY10.

Mr. Puneet Dalmia:

Yeah.

Mr. Nitesh Jain:

So, could you tell us what would be the...this is a cement capacity, what would be the clinker capacity?

Mr. Puneet Dalmia:

I think we can take that offline.

Mr. Nitesh Jain:

Okay, no problem. Secondly, this power situation, power cuts in South, has it been eased off of late?

Mr. Puneet Dalmia:

Yeah, I think after the elections, Andhra Pradesh situation is much better.

Mr. Nitesh Jain:

Okay.

- Mr. Puneet Dalmia: But Tamil Nadu still continues to be, you know, operating in a very difficult power environment.
- Mr. Nitesh Jain: So, I think in the peak of the power cuts, it was only 3 days that the Andhra Pradesh industrial units were getting out of a week.
- Mr. Puneet Dalmia: Yeah.
- Mr. Nitesh Jain: So, now are they getting the full 7-day power?
- Mr. Puneet Dalmia: They are getting about, you know, 85% to 90% as opposed to 50%.
- Mr. Nitesh Jain: Okay.
- Mr. Puneet Dalmia: But in Andhra Pradesh, the situation is likely to ease very quickly with the gas coming in. I think from next month onwards, we will be at 100% probably.
- Mr. Nitesh Jain: Okay, sure. Yeah, that's it from my side. Thanks.
- Moderator: Thank you very much sir. Next in line, we have Mr. Tejas from Enam Holdings. Over to you sir.
- Mr. Tejas: Sir, this question is regarding OCL. They just commissioned their 1.7 million tonne clinker unit. When would the grinding unit for that be commissioned sir?
- Mr. Puneet Dalmia: The grinding unit has already been commissioned in Kapilas Works.
- Mr. Tejas: Okay.
- Mr. Puneet Dalmia: And, you know, we are already running that at close to full capacity. That was commissioned six months before the clinker unit.
- Mr. Tejas: So, the total OCL capacity currently is how much sir?
- Mr. Puneet Dalmia: Our total capacity is 4.3 million tonnes.
- Mr. Tejas: Okay.
- Mr. Puneet Dalmia: But we can add, you know, some more grinding capacity to take it up to 6 million tonnes.
- Mr. Tejas: Okay, thank you very much.
- Mr. Puneet Dalmia: We are fully invested in clinker.
- Mr. Tejas: Okay, thank you.
- Moderator: Thank you very much sir. Next in line, we have Mr. Basant Patel from Systematix Shares. Over to your sir.

- Mr. Basant Patel: Hello, good afternoon sir.
- Mr. Puneet Dalmia: Good afternoon.
- Mr. Basant Patel: Just a small question, just a couple days back actually media reports have stated that in eastern region there is a shortage of cement. Because of this, some of the power plants have been getting delayed, commissioning of the power plants, work of the...starting work of the power plants have been getting delayed due to shortage in cements, is that true, particularly in eastern region.
- Mr. Puneet Dalmia: Yes, it is true. Actually, you know, if I look at Orissa, Orissa actually witnessed a 25% demand growth last year...
- Mr. Basant Patel: Yeah.
- Mr. Puneet Dalmia: ...and the demand growth in the eastern region overall was about 9%.
- Mr. Basant Patel: Okay.
- Mr. Puneet Dalmia: But the demand growth for Q4 was around 13.5%.
- Mr. Basant Patel: Okay, okay.
- Mr. Puneet Dalmia: So, in the last five-six months, eastern region has been growing, you know, more than what we had all expected...
- Mr. Basant Patel: Okay.
- Mr. Puneet Dalmia: ...and due to delay in commissioning of most of the plants and as I said ramping-up and infrastructure constraints...
- Mr. Basant Patel: Okay.
- Mr. Puneet Dalmia: ...there was cement shortage. So, in fact, right now, all cement plants are out of clinker stock...
- Mr. Basant Patel: Okay, okay.
- Mr. Puneet Dalmia: ...and, you know, some of the plants are importing cement from Rajasthan and even importing clinker from overseas to keep up with the demand.
- Mr. Basant Patel: Okay. Okay, so even we see better kind of growth particularly in this region, so we anticipate at least 12% plus at least or near to 15% growth likely to continue this year, particularly in this region?
- Mr. Puneet Dalmia: No, I think it is hard for me to forecast what, you know....

- Mr. Basant Patel: Yeah.
- Mr. Puneet Dalmia: ...whether this is a, you know, one-off phenomenon or whether this will continue...
- Mr. Basant Patel: Okay.
- Mr. Puneet Dalmia: ...but as I said we still believe that about, you know...
- Mr. Basant Patel: Yeah.
- Mr. Puneet Dalmia: ...we will be happy if there is 8% to 9% demand growth this year.
- Mr. Basant Patel: Okay. But OCL has major exposure to eastern region only I think...
- Mr. Puneet Dalmia: That's right, that's right.
- Mr. Basant Patel: Okay fine, thank you.
- Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 on your telephone keypad now. Next in line, we have Mr. Mihir Salodh from E-Next Financials. Over to you sir.
- Mr. Mihir: Good evening sir, Mihir over here.
- Mr. Puneet Dalmia: Yeah Mihir.
- Mr. Mihir: Sir, most of the questions have been answered, I just wanted to go back to the figure of coal, if you could please give me historical figures as well for the last year and this year.
- Mr. Somnath Patil: Last year, our average cost of coal was 4,400 rupees per tonne.
- Mr. Mihir: Right sir.
- Mr. Somnath Patil: And this year it was 6,600.
- Mr. Mihir: Right sir. Any forecast for the next year, as in any linkages, you have sourced any supply from somewhere?
- Mr. Somnath Patil: Next year, the forecast will be...it will be more like say around 3,500 to 4,000 rupees per tonne.
- Mr. Mihir: Okay. Would you be able to give us a broad outline on the suppliers, as in are you importing it or domestic linkages?
- Mr. Somnath Patil: No, this is mainly for imports.
- Mr. Mihir: Right sir. Thank you very much sir.
- Mr. Somnath Patil: Thank you.

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

Mr. Puneet Dalmia: Okay. Thank you everybody for, you know, participating in this call. We have an analyst event coming up in the second half of June and, you know, once the dates get finalized, Nidhi will send all of you the invites. So, I want to extend my personal invitation to all of you to attend that event and, you know, help us interact with you. I just want to close the call with, you know, a couple of remarks. I think this is a volume-driven growth story and this year we are going to see the impact of that because two of our new plants are getting commissioned in Dalmia, one new plant is getting commissioned in OCL. The fact that there is a stable government at the center and, you know, some of the states that we are operating in also are UPA backed. You know, we stand to benefit from increased infrastructure spending. We also believe that, you know, the company has reached critical mass now and, you know, with our, you know, including economic interest in OCL we will be a 10 million ton company which we believe is a critical mass for being able to generate funds to continue to participate in the Indian growth market and we also believe that the maximum shareholder value gets created when you are able to, you know, grow without significant dilution. We haven't tapped capital markets for the last, you know, 7-8 years and all this growth has been funded through internal accruals and debt and even though, you know, when we are commissioning CAPEX, the Debt to Equity number seems slightly high, but we have seen such Debt to Equity numbers earlier as well and netted off for investments I think the numbers are fairly under control. So, we will, you know, continue to grow and participate in the Indian growth story. We have built strong capabilities over the last, you know, five-six years managing all this growth and I think all that health will come in handy as we continue the next phase of our growth. So, thank you very much and we look forward to interacting with you in June, you know, in the event in Mumbai. Bye.

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
