

Dalmia Cement (Bharat) Limited
Quarter One Earnings Conference Call, Financial Year - 2010
July 22, 2009

Moderator: Good afternoon ladies and gentlemen. Welcome to Dalmia Cement (Bharat) quarterly 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 Mr. Puneet Dalmia. Thank you and over to you sir.

Mr. Puneet Dalmia: Good afternoon. I want to welcome all of you to our first quarter conference after the results. The highlights of the quarter are that we had a top line growth of about 27% and an EBITDA growth of 23%. Our net profit growth has also been 15%. So, we are quite pleased with the performance in this quarter. Overall, we feel that this growth has been driven by volume growth in both the cement and the sugar business and also realization growth in the cement and sugar business.

If I look at the cement business, the volume and realization growth has been 10% and 9% respectively and even in the sugar business, the volume growth has been 69% and realisation growth 55%. So, the sugar business has shown very sharp increase in profitability because of more than 50% volume and pricing growth and cement business had pricing and volume growth of about 10% on both the parameters. So, I think we also face some pressure in the cement business on the fuel cost side because we were carrying high cost coal in both Tamil Nadu and Andhra Pradesh facility which got consumed during this quarter. So, there was 2% hit on our margins because of that. We also had slightly higher freight cost because our Andhra facility is now supplying...started ramping up and we are going into a slightly further off market. Overall, in terms of our projects, the Andhra facility in Kadapa has started ramping up slowly. We are now selling about 3,000 tons per day. Our total capacity is about 6,000 tons per day, but during the quarter we had the overall capacity utilization only at about 20%, which has now gone up to 50%. We also started cement grinding in Ariyalur which is our new facility in Tamil Nadu and clinker commissioning in this facility is going to start only from September onwards. So, I think there is a lot of volume growth which is still not fully factored into our results. We are also hopeful that the cost pressure that we felt this quarter because of the inventory effect will get substantially mitigated in the coming quarter. On the demand side, we are seeing a very healthy demand growth in the country. The cement demand grew at about 12%. We also saw 11% growth in Tamil Nadu and Kerala, though in Andhra Pradesh and Karnataka we have seen almost flat market. Now, Andhra Pradesh we believe that this was

due to the election effect, the policy regime of investing in infrastructure and low cost housing is going to continue. So, I am not worried about the slow growth in Andhra Pradesh in the first quarter. I think Andhra Pradesh is going to show very robust growth going forward. I also know that the Karnataka government has had a very strong plan to invest in infrastructure and create strong state GDP growth. They are benchmarking themselves with Gujarat where the ruling government has strong majority and are not dependent on coalition partners any more. So, I think Karnataka and Andhra Pradesh are likely to do well in the short term and medium term if the intent can be transferred to implementation.

On the sugar side, we are seeing a very positive outlook in terms of pricing and demand supply. We think that the closing stock for the year is going to be only two to three months and the global prices have gone up. So, we see further upside in sugar from here.

So, all in all, I think this is the year where our CAPEXs are getting commissioned and volume growth is going to drive profitability of the company. We are seeing some pressure on prices in the fourth quarter of the year in cement and we think that might get offset by the improving cost structure due to better raw material prices. So, we are very satisfied with the performance of the company. We are working very hard to get the ramp-up in place quickly and this is going to be a year where we can at least start demonstrating the growth which is inherent in the profitability of the company through the well-timed CAPEXs that we have made.

We are also very happy with our associate company's performance. OCL in which we hold 21.7% stake, OCL has done a revenue of close to 400 crores and the EBITDA has been 120 crores. In the eastern region, we have seen demand growth of close to 20% in the markets that we serve. We have also seen a very substantial increase in prices there. So, all the capacity that we have is sold out and, in fact, we were importing clinker in the month of June. However, our line 2 has started in OCL and we think that in the coming quarters we will be able to get the volume growth due to this commissioning. So, this is the year of volume growth for us and I will open the floor to questions.

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. I repeat, participants who wish to ask questions, please press * followed by 1 on your telephone keypad now. First in line, we have Mr. Bhavin from Enam Holdings. Over to you sir.

Mr. Bhavin Chheda: Yeah, good afternoon Puneet. Good set of numbers. Sir, on the sugar business, what is the FY10 plan of how much cane you plan to crush?

Somnath Patil: Yeah, we will be producing about 215,000 tonnes of sugar.

Mr. Bhavin Chheda: 215,000 of sugar, okay.

Somnath Patil: Yeah, which includes raw sugar processed of about 25,000 tonnes.

Mr. Bhavin Chheda: Raw sugar processed of 25,000 tonnes.

Somnath Patil: Yeah. This is the plan as of now and going forward, we will see if there is scope to import more raw sugar, we will keep a watch on that and depending on how the prices move, we will decide on that.

Mr. Bhavin Chheda: And sir, your cogen plan, the generation was quite low in Q1, so what was the reason and what is the target for the year?

Somnath Patil: Last year, there was...in fact, this year our season ended quite early, some time in February itself, therefore the availability of bagasse was restricted...

Mr. Bhavin Chheda: Yeah.

Somnath Patil: ...and a result of which we didn't produce much in this quarter, . This is an off-season, but for the same quarter last year, we had reasonably good quantity of bagasse, that season was longer and therefore you will see a drop this year in cogen, power generation.

Mr. Bhavin Chheda: So, what is the annual target sir, how much lakh KWA can you generate in power?

Somnath Patil: Annual, we will generate about...

Mr. Bhavin Chheda: Sorry.

Somnath Patil: 23 crore units.

Mr. Bhavin Chheda: 43 crore units you can generate.

Somnath Patil: No, 23 crores because this is not going to run for the whole year.

Mr. Bhavin Chheda: Okay, 23 crores.

Somnath Patil: Yeah.

Mr. Bhavin Chheda: And have you signed up with anyone for excess power or this is

based on monthly rates or spot rates?

Somnath Patil: No, we have signed with the UP State Electricity Board...

Mr. Bhavin Chheda: Okay.

Somnath Patil: ...and it is at a fixed rate of around 3 rupees 10 paisa, but in this quarter we got a rate of...we had negotiated a rate of about 4 rupees.

Mr. Bhavin Chheda: Okay.

Somnath Patil: So, which we got and we are in turn negotiating again with the electricity board for a higher rate, but the decision is not yet out on that.

Mr. Bhavin Chheda: Okay. And in case of cement, now all your high cost coal has been used up now. So, how much benefit on a per tonne basis we can get from next quarter?

Somnath Patil: We still have some quantity of coal left in our Kadapa plant.

Mr. Bhavin Chheda: Okay.

Somnath Patil: In our Dalmiapuram plant, we have already consumed bulk of it.

Mr. Bhavin Chheda: Okay.

Somnath Patil: And the average cost for this quarter has been around 5,300 rupees.

Mr. Bhavin Chheda: 5,300 rupees?

Somnath Patil: Yeah.

Mr. Bhavin Chheda: And which has now come down to...in Q2, how much savings you expect here?

Somnath Patil: We expect more or less the same because we don't have...I mean, on an overall basis, Kadapa plant will be consuming the balance high cost coal.

Mr. Bhavin Chheda: Okay.

Somnath Patil: But otherwise the cost of current coal is almost half of the coal that we were carrying...the high cost coal that we were carrying.

Mr. Bhavin Chheda: Okay. And sir, your presentation mentions fall in gypsum and fly ash cost in Q1 on a Y-o-Y basis, are these sustainable levels now or you expect the averages to be higher, was it an exceptional that in Q1 it fell, how is the gypsum and fly ash trend like?

Somnath Patil: Yeah, fly ash has been lower by 8% compared to last year average...

Mr. Bhavin Chheda: Okay.

Somnath Patil: ...and gypsum lower by about 14%.

Mr. Bhavin Chheda: But...

Somnath Patil: So, I think these are sustainable. We don't see...except for Kadapa, our cost of fly ash as well as gypsum will be little higher...

Mr. Bhavin Chheda: Okay.

Somnath Patil: ...but for this quarter, we have...these costs pertain mainly to our DPM plant.

Mr. Bhavin Chheda: Okay. So, you are saying that there won't be cost pressures on account of gypsum and fly ash in current fiscal because so much capacity coming up in south and blending ratio is more or less or increasing, you don't think so fly ash availability will be a constraint or gypsum cost also may go up again?

Somnath Patil: We don't think availability will be a concern.

Mr. Bhavin Chheda: Yeah.

Somnath Patil: Cost could be a slight challenge.

Mr. Bhavin Chheda: Okay.

Somnath Patil: Yeah, there could be a slight challenge on that.

Mr. Bhavin Chheda: Okay. Thanks a lot sir.

Somnath Patil: Yeah, 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: Good afternoon sir. Hello...

Mr. Puneet Dalmia: Yeah, good afternoon.

Mr. Jinesh Gandhi: Yeah. My question is on how has been the pricing in your markets since 1Q FY10, how has been the price trend?

Mr. Puneet Dalmia: Overall, if I compare with March exit numbers, prices in Tamil Nadu and Kerala would account for about 70% of our sales, has

been flat or has marginally gone up.

Mr. Jinesh Gandhi: Marginally gone up, yeah.

Mr. Puneet Dalmia: Yeah. But if I look at the prices in Andhra Pradesh and Karnataka, they have fallen by about 6-7%.

Mr. Jinesh Gandhi: 6-7% is it?

Mr. Puneet Dalmia: Yes. But this is compared to March.

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: But if you look at on a Y-o-Y basis, , prices have actually gone up a little bit.

Mr. Jinesh Gandhi: Okay, okay.

Mr. Puneet Dalmia: So, we are seeing...we did see some pressure on prices in Andhra Pradesh and Karnataka.

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: But we feel that the current level of prices at least for the next quarter should be okay, but we are expecting some pricing pressure in the second half of the year as I mentioned earlier.

Mr. Jinesh Gandhi: Okay. And this decline in prices in this market is largely due to new capacities or...

Mr. Puneet Dalmia: I think partly it is due to new capacities, but as I said earlier, Andhra Pradesh and Karnataka have not grown. Karnataka showed a negative growth in the first quarter of this year and Andhra Pradesh also was almost flat. So, there was a lot of uncertainty in Andhra due to the elections, whether the whole policy regime on irrigation projects and low cost housing will continue and now we feel that that policy regime will continue. So, Andhra Pradesh basically had almost come to a standstill in terms of new constructions in the first quarter.

Mr. Jinesh Gandhi: Right.

Mr. Puneet Dalmia: So ...new capacities came in and market was flat. So, there was some pressure on prices.

Mr. Jinesh Gandhi: Okay. And secondly, have we started seeing demand coming from organized real estate sector now, given that there has been some improvement in their business fundamentals as well?

Mr. Puneet Dalmia: Not really. We have not seen demand coming back, but we have seen confidence coming back.

- Mr. Jinesh Gandhi: Okay.
- Mr. Puneet Dalmia: So, I think it will take some time for people to...all real estate companies had started making national footprint and I think right now they are in the process of rationalizing their growth plans. So I think it will take a while for this to play out. So, we are not still sure as to how soon and how quickly organized real estate will revive in terms of being a potential segment.
- Mr. Jinesh Gandhi: Okay. And in terms of our expansion plans, one plant is up and running and by when we expect second plant to be operational?
- Mr. Puneet Dalmia: The Kadapa plant is up and running.
- Mr. Jinesh Gandhi: Right.
- Mr. Puneet Dalmia: But the Ariyalur plant has started grinding cement. We are supplying clinker from Dalmiapuram right now.
- Mr. Jinesh Gandhi: Right.
- Mr. Puneet Dalmia: And the clinker facility will start from September onwards.
- Mr. Jinesh Gandhi: September onwards. So, we will have full impact or full ramp-up by 1Q FY11.
- Mr. Puneet Dalmia: That's right.
- Mr. Jinesh Gandhi: Okay. Okay sir, thanks.
- Moderator: Thank you very much sir. Next in line, we have Mr. Nikhil from Kim Eng Securities. Over to you sir.
- Mr. Nikhil: Good afternoon sir.
- Mr. Puneet Dalmia: Good afternoon.
- Mr. Nikhil: Can you please tell us more about your debt position, how is it looking?
- Somnath Patil: Yeah, we have a total debt of about 2300 crores as of now and we have a net debt of 2000 crores with cash and cash equivalent of about 300 crores.
- Mr. Nikhil: Okay. So, what are the repayment plans for this debt?
- Somnath Patil: In fact...
- Mr. Puneet Dalmia: What is the question?

- Somnath Patil: The repayment plans.
- Mr. Puneet Dalmia: So, roughly in the next 3 years, we have to repay 15% of this debt and most of the repayment plan is back-ended.
- Mr. Nikhil: Okay, it is after 3 years?
- Mr. Puneet Dalmia: Sorry...
- Mr. Nikhil: Okay. Secondly sir, you mentioned around 154 million of losses, other loss, some other expense, what was on this sir, what was about this?
- Somnath Patil: 154 of other expenses?
- Mr. Nikhil: Yeah.
- Somnath Patil: Where do you see that figure?
- Mr. Nikhil: Actually, if you look at the segmental earnings, there it is mentioned 154 million.
- Somnath Patil: 15 crores?
- Mr. Nikhil: Yeah, 15 crores.
- Somnath Patil: Yeah, that is basically the expenses on other businesses as well as on the corporate office, corporate office expenses which were not allocated for cement, sugar, power.
- Mr. Nikhil: Okay. So, there is no...
- Somnath Patil: And some other businesses.
- Mr. Nikhil: Okay. So, there is no, what you call, a loss on equity, which... shares and loss.
- Somnath Patil: No, no, that's nothing, just about 24 lakhs which you see on the first page.
- Mr. Nikhil: Okay. And on consolidated basis, how much is it?
- Somnath Patil: How much is the?
- Mr. Nikhil: On consolidated basis. This is only for standalone. On consolidated basis, how much expenses are there?
- Somnath Patil: No, it is the same, consolidated, there is no great difference.
- Mr. Nikhil: Okay sir. Okay, my last question is about freight. Can you tell us how much freight cost you may see, increase in freight cost?

- Somnath Patil: What is the question, sorry, we couldn't hear very clearly.
- Mr. Nikhil: Hello...yeah, how much increase in freight cost can we see on a per tonne basis?
- Somnath Patil: About 2% to 3% as of now.
- Mr. Nikhil: 3%?
- Somnath Patil: Yeah.
- Mr. Nikhil: Okay. Okay, thank you very much sir.
- Somnath Patil: Welcome.
- Moderator: Thank you very much sir. Next in line, we have Mr. Sumeet from Citibank. Over to you sir.
- Mr. Sumeet: Yeah, hi, good afternoon Puneet, how are you sir?
- Mr. Puneet Dalmia: Very well, thank you. Yeah, thank you. Hello...
- Mr. Sumeet: Hello...am I audible?
- Mr. Puneet Dalmia: Yeah, you are audible, go ahead.
- Moderator: Please go ahead sir.
- Mr. Sumeet: Yeah. Sir, my question is on the CAPEX. How much CAPEX did you incur in first quarter and how much is the total plan for FY10?
- Somnath Patil: Yeah, we incurred about 89 crores in the first quarter and we need to incur another 220 odd crores for the rest of the period.
- Mr. Sumeet: Okay. And how much of it would be financed by debt sir, the total 309 crores?
- Somnath Patil: Around 1150 crores is financed by debt?
- Mr. Sumeet: Sorry...out of this 309 crores sir, how much is financed by debt?
- Somnath Patil: Okay, out of the balance, about close to 200 crores will be financed by debt.
- Mr. Sumeet: Alright. And sir, you mentioned that you have a total net debt of around 2000 crores.
- Mr. Puneet Dalmia: Yeah.
- Mr. Sumeet: Does this include the working capital fee?

- Somnath Patil: Yes.
- Mr. Sumeet: Short term debt?
- Somnath Patil: This includes short term also.
- Mr. Sumeet: Okay, okay. And...
- Somnath Patil: That is about 350 crores.
- Mr. Sumeet: So, which would mean that on 31st March 2010, your debt...net debt would be close to 2200-2300.
- Somnath Patil: Yeah, that's right, 2170 or so.
- Mr. Sumeet: Yeah, thanks sir, that answers my question.
- Moderator: Thank you very much sir. Next in line, we have Mr. Mihir from Religare.
- Mr. Mihir Jhaveri: Yeah, sir, my question is with respect to CAPEX, with respect to the capacities that are coming in in the south. Sir, can you give me...throw some light of how much capacity you expect to be there in FY10, particularly in Andhra, Karnataka, and Tamil Nadu?
- Ms. Nidhi Aggarwal: Yeah, Nidhi here.
- Mr. Mihir Jhaveri: Hello...
- Ms. Nidhi Aggarwal: We expect about 18 million tonnes addition in capacity in south in the four states.
- Mr. Mihir Jhaveri: Okay.
- Ms. Nidhi Aggarwal: And we are already, I think south is already at about 80...
- Mr. Mihir Jhaveri: Yeah.
- Ms. Nidhi Aggarwal: ...million tonnes. So, close to about 95 to 100 million, depending on how soon the projects come up, because we are witnessing delays in quite a few projects.
- Mr. Mihir Jhaveri: Okay. And are we seeing any cancellations of orders or cancellation of the capacity expansion plan which was earlier by some of the companies?
- Mr. Puneet Dalmia: I think as I see, there is still a very cautious environment with respect to investments.
- Mr. Mihir Jhaveri: Okay.

Mr. Puneet Dalmia: And most of the machinery suppliers that we talk to are saying that some orders are coming, but their pipeline is quite dry at the moment.

Mr. Mihir Jhaveri: Okay, okay, okay.

Mr. Puneet Dalmia: But there are a few announcements that have been made. When those announcements actually get financial closure and by when they will actually start construction still remains to be seen.

Mr. Mihir Jhaveri: Correct. Okay sir, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Sachin from Lucky Securities. Over to you sir.

Mr. Sachin Kasera: Hello...

Mr. Puneet Dalmia: Yeah.

Mr. Sachin Kasera: Yes sir, could you give some sort of a volume guidance for FY10-11 for Dalmia Cement?

Mr. Puneet Dalmia: We are not going to give any volume guidance, but I think we told you how our plants are ramping up and what is the commissioning schedule, so I think you can make your own numbers.

Mr. Sachin Kasera: Okay sir. My second question is on the sugar business, considering that majority of the investments you are now putting into the cement side and sugar is increasingly becoming a little smaller in the overall scheme of things and considering that sugar, the overall outlook is now pretty good in terms of pricing. If you were to get a good offer or something, would we look in terms of consolidating the cement business and maybe look at exiting the sugar business at some point of time?

Mr. Puneet Dalmia: I think this is a question we don't like to answer on the conference call. Our portfolio decisions are proprietary and confidential, so I don't think we can make a comment on anything right now. All I can say is that we are quite happy with the performance of our sugar business and I think last two years were tough, but this year we are going to get more than expected return on capital employed. So, we are very happy with the performance.

Mr. Sachin Kasera: Okay sir. Thanks a lot. That's all from my side.

Moderator: Thank you very much sir. Next in line, we have Mr. Mihir Salodh from E-Next Financials. Over to you sir.

Mr. Mihir Salodh: Good afternoon sir. This is Mihir over here.

- Mr. Puneet Dalmia: Yeah, good afternoon Mihir.
- Mr. Mihir Salodh: Sir, any incremental investments in Bharathi?
- Mr. Puneet Dalmia: Sorry...
- Mr. Mihir Salodh: Any incremental investment in Bharathi Cement sir?
- Mr. Puneet Dalmia: Oh, Bharathi Cement?
- Mr. Mihir Salodh: Yeah.
- Ms. Nidhi Aggarwal: Nidhi here. No, there hasn't been...there has not been any incremental investment in the quarter.
- Mr. Mihir Salodh: So, it still stands at 70?
- Ms. Nidhi Aggarwal: Yes.
- Mr. Mihir Salodh: Fine, thank you.
- Moderator: Thank you very much sir. Next in line, we have Mr. Ajay Vora from Enam AMC. Over to you sir.
- Mr. Ajay Vora: Yeah, hi, good afternoon sir. You said that prices have corrected in Karnataka and AP by almost 6-7% and they were marginally up in Tamil Nadu and Kerala. So, are we expecting any further price hikes, stable, or some correction in Tamil Nadu and Kerala?
- Mr. Puneet Dalmia: I think we see the pricing quite stable in Tamil Nadu and Kerala at the moment.
- Mr. Ajay Vora: Okay.
- Mr. Puneet Dalmia: And the demand is going rather well. In fact, the two new plants which came in of Chettinad Cement and Madras Cement are already operating at about 50% capacity utilization.
- Mr. Ajay Vora: Okay.
- Mr. Puneet Dalmia: So, that capacity has gotten absorbed without significantly affecting prices.
- Mr. Ajay Vora: Okay.
- Mr. Puneet Dalmia: Also, one of the concerns was that Tamil Nadu and Kerala were the highest price markets in the country...
- Mr. Ajay Vora: Yeah.
- Mr. Puneet Dalmia: ...but as of now we see that some parts of Bihar are actually

selling cement at 300 rupees a bag. Tamil Nadu and Kerala have actually lost that status, so we don't have any pressure.

Mr. Ajay Vora: Okay. So, have we seen any price hikes even in the month of July or something like that?

Mr. Puneet Dalmia: I think we are seeing stable prices right now.

Mr. Ajay Vora: Okay. Thanks a lot.

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

Mr. Vivek Maheshwari: Hi sir.

Mr. Puneet Dalmia: Hi Vivek.

Mr. Vivek Maheshwari: First, on the price cuts, you mentioned 6-7% price cut from March prices right, in July you are saying?

Mr. Puneet Dalmia: Yes. In only Andhra Pradesh and Karnataka.

Mr. Vivek Maheshwari: Right, in Andhra Pradesh and Karnataka, but, I mean, you have also mentioned that you expect infrastructure activity to perhaps pick up in the coming quarters, but how much time, I mean, it is difficult I understand, but how much time you expect actual activity to pick up on the ground?

Mr. Puneet Dalmia: I think if I go by history, the Andhra Pradesh government has performed beyond expectation, so I personally think that they will deliver very good performance in the state. So in a couple of quarters, this thing should come back to normal.

Mr. Vivek Maheshwari: Okay.

Mr. Puneet Dalmia: So, we do expect Andhra growth to go back to 7-8%.

Mr. Vivek Maheshwari: Okay. Which means that perhaps the chunk of FY10 would be challenging as far as Andhra is concerned, both in terms of demand and maybe pricing right?

Mr. Puneet Dalmia: No, I have always maintained that given the capacity pipeline.....the capacity utilization of the industry in the south may go down to 75% in the worst case scenario and somewhere in the mid 80s in the best case scenario. So there will be pressure on pricing, but consolidation and demand growth will push in this

effect. So, I still maintain my qualitative view of the industry and I think that we believe that in the short term we have to manage with caution, but in the long term we are very bullish.

Mr. Vivek
Maheshwari:

Okay, understood. Another question that or another feedback that I have heard from on the ground about the logistic issues, whether in terms of wagon availability or trucks availability. Can you just give some, you know, I mean, are you facing such challenges there in the market place?

Mr. Puneet Dalmia:

Yes, we are. In the month of April and some part of May, we had a one-month power cut in Andhra Pradesh and, power availability actually restricted suppliers of cement into the market. Similarly, we have also faced logistics issues in terms of wagon turnaround time from Kerala in the first quarter and also in Andhra Pradesh, we have had issues with respect to truck availability and availability of wagon. So, I think overall, it takes time in India to get the infrastructure going in remote areas and that is another reason why...due to which I think capacity utilization will get impacted in the entire state.

Mr. Vivek
Maheshwari:

Okay. But...

Mr. Puneet Dalmia:

So, that may cushion the price decline to some extent.

Mr. Vivek
Maheshwari:

Right. But what has changed since say last year because this logistic issue is something that we are hearing about in this year itself or maybe, in fact, from fourth quarter last year, so what has changed suddenly that logistic has become such a big challenge for the industry?

Mr. Puneet Dalmia:

I think two things, one is that food prices have been very good, so, some of the trucks have been diverted to agricultural produce. I also think that given the credit situation in India, lot of logistic companies shied away from investing in their captive fleet. So, most of the logistic companies or local transporters are depending on market trucks and do not have captive trucks and therefore the availability of a captive fleet is an issue.

Mr. Vivek
Maheshwari:

Understood.

Mr. Puneet Dalmia:

So, it takes time for people to develop a vendor network near their plants if they do not anticipate such issues and since most of the Greenfield plants are new and they are in remote areas, we are all going through a learning curve in terms of figuring this out.

- Mr. Vivek Maheshwari: Understood. And what about railways, I mean, wagons are also, you know, not available to the industry right?
- Mr. Puneet Dalmia: I think we keep seeing this wagon availability issue off and on, but it got a little bit more accentuated in the first quarter and it was not availability of wagons as much as the turnover time. So, wagon unloading in Kerala took much longer than expected and therefore, the number of trips that we could do with the same wagons were lower than what we have done in the past. Also, in our case specifically, serving Kerala is more cost effective through the railway route and we had under-planned our road capacity to Kerala and therefore there was some restriction in terms of our ability to serve the Kerala market, even though the Kerala market grew quite well.
- Mr. Vivek Maheshwari: Understood, understood. And lastly, on the coal cost, you mentioned that 5,300 rupees per tonne is what the consumption is at and is likely to be in the second quarter, but what is the CIF rate at which you are buying coal currently which will be consumed perhaps in the second quarter?
- Somnath Patil: It is about 80 dollars.
- Mr. Vivek Maheshwari: 80 dollars landed cost right?
- Somnath Patil: Yeah, 80 dollars.
- Mr. Vivek Maheshwari: Sure, sure. Thank you sir, that's it from me.
- Moderator: Thank you very much sir. Next in line, we have Mr. Pinakin Parekh from JP Morgan. Over to you sir.
- Mr. Pinakin Parekh: Yeah, just one quick question given that there is 6% to 7% pricing pressure in Andhra and Karnataka, do you see this pricing pressure being exported to markets of western and central India, given that Andhra traditionally supplies cement over there?
- Mr. Puneet Dalmia: Well, I think on a sporadic basis, Andhra Pradesh can serve these markets, but on a sustainable basis, it is very hard for them to serve these markets. So I am not sure that excess capacity in Andhra can result in a significant price impact in the eastern market or the western markets.
- Mr. Pinakin Parekh: And you don't see this excess capacity also coming to Tamil Nadu and Kerala?
- Mr. Puneet Dalmia: I think there is finite differential in prices which can be maintained

between Andhra Pradesh and Tamil Nadu.

Mr. Pinakin Parekh: Okay.

Mr. Puneet Dalmia: And currently there is still some scope because Tamil Nadu has a freight advantage as compared to Andhra and Karnataka. So, if you want to serve the Tamil Nadu and Kerala market from Andhra Pradesh, the freight advantage is a permanent price or permanent extra margin available to Tamil Nadu players. Similarly, the brands sell at a slightly higher price because they have more continuous and long term relationship with distributors. So, the current differentials in pricing I think are possible to sustain, but if Andhra prices dip further, I think that will put some pressure in Tamil Nadu and Kerala as well.

Mr. Pinakin Parekh: Okay. And last question, do you see, I mean, the trade margins and dealer margins inching up from given that after three or four years of a tight supply, we have a situation where you have surplus capacity or everything?

Mr. Puneet Dalmia: Yes, I do think so, but dealer margins are not very material in this business because most dealers work with very high return on capital employed. So I do not think that is a game changer. They may take a little bit of margin away, but the real issue is base price. So, I think discounts may affect the margins a little bit, but it is not material in my view.

Mr. Pinakin Parekh: Okay. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Ms. Reena from Merrill Lynch. Over to you ma'am.

Ms. Reena Verma: Yeah, hi. Thank you very much for this call and for some very clear insights. Just two things. One, I wanted to double check, this 6-7% fall in prices, is that from March levels or post the close of the current quarter, that is from June levels, if you can please clarify that.

Mr. Puneet Dalmia: Based on the March levels and, in fact, if I look at a year-on-year number, the prices have actually gone up.

Ms. Reena Verma: Right. And so as we speak for the month of July, are prices hovering around the levels of what you are indicating, 6% to 7% lower or this is already captured in your Q1 results?

Mr. Puneet Dalmia: It is already captured in our Q1 results.

Ms. Reena Verma: Right. And there has been no further pressure on prices?

Mr. Puneet Dalmia: Not yet.

Ms. Reena Verma: Right. And you mentioned that if prices in Andhra fall further, you could see a cascading effect in Tamil Nadu and Kerala. In your mind what is the kind of level you have as the kind of threshold price on per bag basis?

Mr. Puneet Dalmia: I think we can discuss that offline Reena.

Ms. Reena Verma: Sure Puneet. And finally just by virtue of your sister concerns, if you can just talk about what is happening to demand in East India, it has been very, very strong and I am just wondering why elections in Orissa or in some of the other places didn't put a standstill to investments there as they did in Andhra?

Mr. Puneet Dalmia: Frankly, I don't have a view on this and we are trying to understand this issue better ourselves. So, I think we are pleasantly surprised by the 20% demand growth and one of the things that we have always held in our minds is that if the steel project investments happen in Orissa and Jharkhand, they are going to change the face of that economy because these are very large projects and a few billion dollars of investments, few tens of billions of dollars of investments can actually completely transform the economy over there. So, I don't have a very good understanding of the end use right now, but I know that this 20% demand growth has partly been possible due to roads in Bihar. The government has done a fantastic job in restoring investor confidence and I understand that a lot of people are looking at Bihar for investing and infrastructure development is going on at a very good pace over there.

Ms. Reena Verma: Puneet, in your experience, what is the rough cement consumption thumb rule for roads?

Mr. Puneet Dalmia: It depends on whether it is a two-lane or a four-lane road.

Ms. Reena Verma: Yeah.

Mr. Puneet Dalmia: And I think we will send you some data on this. We have a pretty detailed analysis of how much it can contribute to cement demand.

Ms. Reena Verma: Okay, sure. Yeah, thank you very much. Bye-bye.

Mr. Puneet Dalmia: Yeah.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Prachi from Indsec Securities. Over to you ma'am.

Ms. Prachi: Good afternoon sir. Sir, I just wanted to know this additions which are that of 4.1 million tonnes that are going to be done, this 2.5MnT in Dalmia and 1.6MnT in OCL. When would this capacity

be installed?

Mr. Puneet Dalmia: In Dalmia, as I said, the capacity will start in September of this year.

Ms. Prachi: Okay.

Mr. Puneet Dalmia: And in OCL, we have already installed this capacity and the ramp-up is in progress. The commissioning happened some time in June.

Ms. Prachi: June, okay. Sir, in terms of fly ash and gypsum prices, when we are saying that there is a decrease by 8% and 14%, this is on year-on-year basis, right?

Mr. Puneet Dalmia: That's right.

Ms. Prachi: Okay. So, can you just give me the actual prices which were there?

Somnath Patil: See, fly ash prices last year were around...actually, in fly ash, there is a decline of about 8%.

Ms. Prachi: Right.

Somnath Patil: From about 490, it has declined to about 450.

Ms. Prachi: Okay.

Somnath Patil: Gypsum was around 1300.

Ms. Prachi: Okay.

Somnath Patil: At the beginning of the last year and then, of course, gradually it came down to 1,000 towards the end and today it is around 1,100 rupees per tonne.

Ms. Prachi: Okay. Okay, thank you.

Moderator: Thank you very much ma'am. Next in line, we have Ms. Devanshi from LGIM Advisory. Over to you ma'am.

Ms. Devanshi: Good afternoon sir. How much percentage of capacity is being produced for Kadapa and Ariyalur plant?

Mr. Puneet Dalmia: In Ariyalur, we have just started grinding, so we are currently running at a run rate of 1,000 tonnes per day. Our capacity is 6,000, so we are running at about 15% capacity utilization on a daily basis. This is not our quarterly numbers, but this is the daily number as we speak.

- Ms. Devanshi: Okay.
- Mr. Puneet Dalmia: In Kadapa, we are running at about 3,000 tonnes per day and our capacity is 6,000 tonnes per day. So, we are running at about 50% utilization right now.
- Ms. Devanshi: Okay.
- Mr. Puneet Dalmia: But the numbers will be much lower for the first quarter. So, we believe that there is significant headroom for growth in volume.
- Ms. Devanshi: So, when will be there 100% utilization of capacity?
- Mr. Puneet Dalmia: I think we will time that ramp-up with the market. So, ...technically speaking, within the next three months, we should be able to do 100% provided we can solve the logistics, infrastructure-related issues.
- Ms. Devanshi: Thank you.
- Moderator: Thank you very much ma'am. Next in line, we have a followup from Mr. Sumeet from Citibank. Over to you sir. As there is no response, we will move on to the next question. Next in line, we have Mr. Sachin Kasera from Lucky Securities. Over to you sir.
- Mr. Sachin Kasera: Yeah sir, could you just help with the capacity utilization of the various plants during the quarter?
- Mr. Puneet Dalmia: The Dalmiapuram plant ran at about 85% capacity utilization.
- Mr. Sachin Kasera: Okay.
- Mr. Puneet Dalmia: And the Kadapa plant, on a weighted average basis during the quarter was at about 20% capacity utilization.
- Mr. Sachin Kasera: Okay. And sir, for the new plant that you have commissioned, what would approximately be the cash breakeven and the net breakeven levels approximately?
- Mr. Puneet Dalmia: I don't think we can give those numbers out in this call. If you want any question on our cost structure, please contact us offline.
- Mr. Sachin Kasera: Okay sir. Thank you very much.
- Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line, we have Mr. Rahul from Darashaw & Company. Over to you sir.
- Mr. Rahul: Hi, good afternoon Puneet, how are you?
- Mr. Puneet Dalmia: Good afternoon, I am very well, thanks.

- Mr. Rahul: Yeah. You mentioned about the capacity utilization going down in this year, can you just give an idea about at what rate are you expecting this present market to grow in the next year in terms of consumption?
- Mr. Puneet Dalmia: Earlier in the year, we had taken a forecast of about 5-6%. The first quarter growth rate on a blended basis for all four states has been about 4%. We believe that during the year, we expect a 7-8% growth.
- Mr. Rahul: Okay Puneet. Thank you.
- Moderator: Thank you very much sir. Participants who wish to ask questions, please press *1 now. Next in line, we have Ms. Manju from Unified Wealth Management. Over to you ma'am.
- Ms. Manju: Hello...hello...
- Mr. Puneet Dalmia: Yes.
- Ms. Manju: Hello, good evening sir. Congratulations for the good set of numbers. Just wanted to understand your power business sir. Actually, your installed capacity as in your annual report, it is around 16.5 megawatts right?
- Mr. Puneet Dalmia: That is for the wind farm.
- Ms. Manju: Hello...
- Somnath Patil: Yeah, that is for the wind farm only.
- Ms. Manju: Okay. So, what is the total capacity?
- Somnath Patil: We have...
- Mr. Puneet Dalmia: In the sugar business, we have another 80 megawatt which is installed.
- Ms. Manju: Okay.
- Mr. Puneet Dalmia: Out of which, we consume 25 megawatts for our self-consumption...
- Ms. Manju: Okay.
- Mr. Puneet Dalmia: ...and the balance we export to the grid.
- Ms. Manju: Okay. And the balance?
- Mr. Puneet Dalmia: We export to the grid.

- Ms. Manju: Okay, okay fine, okay. And can you just give me the, you know on the overall company-wise, how much you use for your captive consumption, how much percentage you sell outside?
- Mr. Puneet Dalmia: I think you contact Nidhi offline and she will be able to answer all your questions on this.
- Ms. Manju: Okay fine. Thank you.
- Mr. Puneet Dalmia: Thank you.
- Moderator: Thank you very much ma'am. Next in line, we have Mr. Umesh Gupta from Dalal & Broacha Stock Broking. Over to you sir.
- Mr. Umesh Gupta: Hello...
- Mr. Puneet Dalmia: Yeah.
- Mr. Umesh Gupta: Yeah, hi. I just have one question. There are three-four things which currently you have said and we have also tried to understand. One is that you expect volume to grow for about 8% in FY10, right?
- Mr. Puneet Dalmia: That is the industry growth.
- Mr. Umesh Gupta: For your market, for your market.
- Mr. Puneet Dalmia: Yeah.
- Mr. Umesh Gupta: And you expect utilization level to fall; that is second. And third, you, , you expect realization could also be dragged to maybe lower; that is third. Now, the fourth is on operating margin. So, I just want to know, if you could tell us in brief how all these four things, you know, you expect to pan out and what could be the end result of all these four things in FY10?
- Mr. Puneet Dalmia: I think you should make the financial model yourself.
- Mr. Umesh Gupta: No, I have, but I just want to know because, I mean, you are saying that...on one hand, you are saying the volumes will grow. On the other hand, you are saying the utilization will fall. On a third hand, you are saying that the realization, , could again...
- Mr. Puneet Dalmia: Okay, let me say. I think we are saying that that utilization will fall at an industry level, but at a company to company level, volumes may grow depending upon the, you know, capacity that they have brought into the markets. So, there are companies in the sector who operate in the same market who have not expanded capacity and if the market grows they will lose market share. So, at a sector level, utilizations may fall and at a company level, volumes

may grow. These are not inconsistent statements.

Mr. Umesh Gupta: Okay, okay. And on your realization, your view is that it will be flat to maybe negative, is that correct?

Mr. Puneet Dalmia: Well, I am not saying that. What I am saying is that we have seen an improvement in realization on a year-on-year basis in the first quarter. We expect robust pricing in the second quarter and we do expect some pricing pressure in Q3 and Q4. However, to what extent this pricing pressure will be there and on a weighted average basis, whether it will result in flat or lower prices, I cannot say, but what I can say is that the cost structure has already come down and even if the prices come down, which they may or may not, the margins will get offset partly because of the improvement in the cost structure.

Mr. Umesh Gupta: You expect the margins to improve?

Mr. Puneet Dalmia: I hope that the margins will improve.

Mr. Umesh Gupta: Okay, thank you.

Moderator: Thank you very much sir. Next in line, we have a followup question from Mr. Sumeet from Citibank. Over to you sir.

Mr. Sumeet: Yeah, hi. Sorry, I got disconnected in between.

Mr. Puneet Dalmia: No problem.

Mr. Sumeet: My question may be a repetition, but if you can bear with me sir, can you just quickly explain the reason for a sharp fall in margins in your sugar and power business on a quarter-on-quarter basis sir?

Somnath Patil: No, in the power business, actually our volumes were lower and therefore, our profit has been...

Mr. Sumeet: But where were the volumes lower sir?

Somnath Patil: In the cogen part of the sugar business.

Mr. Sumeet: Right.

Somnath Patil: Yeah. But as far as pure sugar is concerned, we have done better than last year.

Mr. Puneet Dalmia: Sumeet, our EBITDA margins in the sugar business which includes power has gone up from 5% to 14%.

Mr. Sumeet: Sir, I am comparing quarter on quarter basis. For the March quarter, your EBIT in sugar business was around 17 crores while

for June quarter, March 09 versus June 09, the EBIT in sugar is around 10.6 crores while the revenue has gone up from 94 crores in March 09 to 124 crores in June 09. I am seeing the segmental sheet in the quarterly results, March quarter versus June quarter, segment results, sugar March 09 versus sugar June 09.

Ms. Nidhi Aggarwal: I will come back to you on that.

Somnath Patil: I think we will get back to you on that, quarter on quarter we will get back to you on that.

Mr. Sumeet: Yeah.

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: Thank you very much. As I said, I just want to summarize that both our businesses saw a volume growth and realization growth in this quarter. We feel that our sugar business which was dragging the profitability and the return on capital employed down in the last two years has turned around significantly and we are seeing very good results from the sugar business this year. We also believe that as our CAPEX plans are coming to fruition and ramping up has happened, there is significant headroom left for volume growth in Dalmia Cements. We are also very happy and satisfied with our performance and investment in OCL and I think that business is doing very well. So, overall, I think as a Group, we are hopeful that our expansion in the cement business will deliver superior growth and continued growth in the profitability of the company and I think at least in the next few quarters, we hope to outperform what we have done in the last year. So, thank you very much and we look forward to our continued interaction.

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.

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