"Dalmia Bharat Limited Conference Call."

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CHORUS CALL

MANAGEMENT: **MR. PUNEET DALMIA – MANAGING DIRECTOR – DALMIA BHARAT LIMITED**
MR. MAHENDRA SINGHI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – DALMIA CEMENT BHARAT LIMITED
MR. DHARMENDER TUTEJA – CHIEF FINANCIAL OFFICER – DALMIA BHARAT LIMITED
MR. RAJIV BANSAL – PRESIDENT AND CHIEF TRANSFORMATION OFFICER – DALMIA BHARAT LIMITED
MS. ADITI MITTAL – HEAD OF INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Conference Call on Business Update of Dalmia Bharat Limited. Please note that this conference will be for 30 minutes and for the duration of this conference call, all participant lines will be in the listen-only mode. This conference call is being recorded and the transcripts of the same will be put-up on the website of the company. After the management discussion there will be an opportunity for you to ask questions. Should anyone need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone.

Before I hand over the conference to the management, I would like to remind that certain statements made during the course of this call may not be based on historical information or facts and maybe forward-looking statements. These statements are based on expectations and projections and may involve a number of risks and uncertainties such as the actual outcome that may differ materially from those suggested by such statements.

I now hand the conference over to Ms. Aditi Mittal, Head of Investor Relations. Thank you and over to you.

Aditi Mittal: Thank you Mike. Good morning, everybody. Thank you for joining in for our call today to discuss the divestment of our refractory business. I would request all the participants on the call to kindly restrict their questions to this subject and refrain from asking anything pertaining to our financial performance and earnings. We can take up all such performance related questions during our upcoming earnings call, which will be scheduled after our Board Meeting of FY '23.

With this I will now hand over the call to Mr. Dalmia for his opening remarks. Thank you and over to you.

Puneet Dalmia: Thank you Aditi. Good morning, everyone. Thank you all for joining in at such short notice. Before sharing with you the details regarding the purpose of this call, I would like to spend a few minutes to reiterate our thinking and the context which I have shared with you earlier in several conversations.

We have deep conviction on the Indian growth story and are bullish that the cement sector would be a direct beneficiary of this for multiple decades. During and post-COVID, India has displayed its resilience and has come out stronger than all major world economies. And my conviction in the India growth story has only become stronger.

The Indian economy is undergoing a large-scale metamorphosis with millions of people coming out of poverty. A young, ambitious and massive middle class will drive a consumption and housing boom. Further, rapidly building world class infrastructure is a defining lever to achieve India's ambition of becoming the world's third largest economy during the Amrit Kaal.

We have seen the budget capex numbers of INR 7.5 lakh crores last year and INR 10 lakh crores this year. I believe that Infra and housing will drive a robust growth in cement demand over many decades.

We have already seen outstanding results by betting on the strategy that cement is a proxy bet on India's growth. Our capacity grew from 1 million ton in 2004 to 40 million tons in 2023.

Dalmia's growth will continue to accelerate as India accelerates. We have plans to be 75 million by 2027 and in the next four years we will add almost what we added in the last 20 years.

To capitalise on this multi-decade growth in cement demand, we created a Vision 2031 for Dalmia Bharat and made a long-term capacity creation plan of 110 million tons to 130 million tons by 2031 which translates into a 15% CAGR.

As an entrepreneur, I am acutely aware that our strategy, like any other growth strategy requires strong discipline. Discipline in capital allocation and discipline in execution. We backed up our capex plan with a very robust capital allocation framework, which was the first of its kind for an Indian cement company. This growth plan and capital allocation framework has three defining features.

One, Dalmia Bharat will be a Pan India pure-play cement company. Two, we will have significant presence in every market that we operate in. And three, that we will pursue this growth with a strong balance sheet, keeping net debt to EBITDA less than or equal to two. We could temporarily surpass this ratio for very strategic inorganic opportunities, but our company would make all efforts to bring it back to less than two over the next few years.

Along with the capital allocation framework, we had also committed that we will divest our non-core assets over time, primarily the stake in IEX, Hippo Stores and the refractory division. In line with this stated commitment of building a pure-play cement company and containing a net debt to EBITDA less than two, we started divesting our non-core assets. We began by divesting our stake in IEX and reduced our stake from 20% to about 15% and realized INR 614 crores. We also divested Hippo Stores in December '21 through a slump sale to a promoter entity for INR 155 crores.

With a view to build scale, sharpen management focus and create value, we combined DCBL's refractory business, which we had received along with the acquisition of OCL, with a group entity called Dalmia Refractories Limited and created a pure-play refractory company in financial year '22, called Dalmia Bharat Refractories Limited, DBRL. This was done to create value by creating a pure-play company and building scale.

Our investment thesis indeed played out and backed by the terrific execution of our refractory team, we sold the India business of DBRL to RHI Magnesita in January '23 at an EV/EBITDA of 24x, which is one of the highest in the sector. The consideration for the same was received in the form of RHI shares and also some small portion of cash. The consideration received by DBRL in the form of RHI shares now constitutes about 14% shareholding of RHI India and is locked for a period of six months till about August '23.

Since DBL wants to finance its cement growth with a super-strong balance sheet and monetize its non-core assets, the Board of DCBL on Saturday 25, March has approved the sale of its entire 42.36% holding in DBRL. Accordingly, DCBL has entered into a binding agreement to sell its entire shareholding in DBRL to a promoter group company called Sarvapriya Healthcare at a consideration of INR 800 crores. The transaction will be consummated over the next 30 days in April 2023.

I will now hand over the call to Mr. Singhi, and our CFO to take you through the details of the transaction. Over to you Mr. Singhi. Thank you.

Mahendra Singhi: Thanks Puneet ji. Happy Morning friends. Continuing on what Puneet ji has said, we are fully committed to carry out our growth plan of 110 million tons to 130 million tons by 2031. We are very much confident that we will be able to achieve our target of 49 million tons by March '24, 75 million tons by FY '27.

Friends, I am very happy to share that we are not only meeting our first milestone of 49 million tons in time, but with the Jaypee acquisition, we will be exceeding it by reaching to almost 54 million tons by March '24.

Friends, we are in the midst of completing the formalities for the Jaypee acquisition, which marks our entry into the central region of the country. The agreement for the first tranche of Jaypee acquisition is already signed and we are now in the advanced stage for completing the balance one.

We will also be formally sharing an update with you on the same as soon as we are able to close it. As we build our capacity to 110 million tons to 130 million tons, building up raw material security and fuel security will be another area of focus. During the quarter, we have won auction for another coal block in Mandla North in MP and which when operational will add to both flexibility and supply and efficiency in the cost.

Friends, as we build a pan-India pure-play cement company, we will also ensure that our balance sheet remains always strong. The divestment of IEX, Hippo Stores and now the refractive business is a step in the right direction and this will help in financing our growth plans.

Now I would request our CFO, Mr. Dharmender to take you through the final details of the refractive business divestment. Thanks, all the best.

Dharmendra Tuteja: Thank you, Puneet ji, and Singhi ji. Good morning, everybody. As mentioned by Puneet ji, and Singhi ji, the Board of DCBL in their meeting held on 25, March has approved the sale of its entire shareholding in DBRL. Accordingly, DCBL has subsequently entered into a binding agreement to sell its 42.36% stake in DBRL to a promoter group company called Sarvapriya Healthcare Solutions Private Limited at a consideration of INR 800 crores.

The transaction is scheduled to be consummated over the next 30 days in April 2023. Further, the payment consideration for the same will come in as follows: i) 20% of the transaction value that is INR 160 crores will be realized by DCBL within April 2023. Ii) The balance consideration of 80% that is INR 640 crores will be converted into NCDs, which will carry an interest rate of 8.5% per annum. These debentures will be redeemable in two tranches.

The first one will be redeemed in December '23 and the remaining 40% will be redeemed in September '24. In December '23, when the first tranche of these debentures is redeemed, we will not only get cash inflow of INR 320 crores from DBRL shares divestment, but we will also be receiving the INR 120 crores which is due from the redemption of debentures of Hippo Stores.

Thus, the combined cash inflow to the company from both these divestments will look like as follows. INR 160 crores in April '23 for sale of shares of DBRL, INR 440 crores in December '23 from redemption of debentures issued against sale of DBRL shares and Hippo Stores business and INR 320 crores in September '24 from the remaining debentures issued against DBRL shares divestment.

Additionally, you can expect that we will gradually be divesting our stake in IEX as has already been reiterated both by Puneet ji and Singhi ji. Our guidance given through the capital allocation framework remains our key guiding document and we will continue on our capacity growth journey within the boundary conditions of the framework.

With this, I now open the floor for question-and-answers. Thank you very much.

Moderator: We have the first question of the line of Prateek Kumar from Jefferies.

Prateek Kumar: Congratulations for closing the deal. My first question is on, while we have highlighted the timeline of closure of this deal, is there any chance of this not getting terminated or not getting closed both in terms of payment upfront as well as future, With any changes expected?

Dharmender Tuteja: Sorry, can you repeat your question? What I understood was that is there any risk of this not happening? So, the answer is no.

Prateek Kumar: Risk of not happening both in terms of timelines as well as in terms of payments?

Dharmendra Tuteja: No. I think the timelines of the execution which I said is 30 days from now is scheduled to happen as well as the payments as per the schedule which will happen. We don't foresee any risk on this.

Rajiv Bansal: So, Prateek, if I can just elaborate on the reason of this timeline to give you more comfort. I think the first tranche of 30 days is frankly because of the fact that we need to give prior intimation to securities exchange (SEBI) of four working days to enter into inter-se promoter sale and by the time that four days gets over, we get into a silent period for DBRL.

So I think the legal advice that we received was that we should not be doing transfer of shares during the silent period. So once the DBRL board meeting is over and the silent period is over, then we will be able to execute the transaction. So that is the reason why there is a delay.

The second tranche is finally because the RHI shares are locked in for six months till August and we hold almost 15% shares of RHI India. So again, it requires some time for the cash flow to be generated within the DBRL business. So I think the timeline has been designed based on that. So to ensure that there is enough cash flow in DBRL and the promoter entity which will have to be paying this money up.

So I think there is no doubt in our mind that this deal, which is being signed with the promoter entity, will not happen. , Earlier we had signed a deal for Hippo Store also and we have got all the interest payments and we are expecting the final t tranche of payment in December. So almost

I would say there is no doubt about it. This is a done deal. This is a signed agreement. This is a binding agreement. So, there is no question of not happening at all.

Prateek Kumar: My second, just one more question on valuation. How does the valuation of the three promoters compare to what we transferred at and what was the transfer of our Dalmia Cement to factory earlier and then to sale to RHI entity? So how do you compare all these three valuations compare?

Dharmender Tuteja: So as you will recollect that Indian business of a factory was transferred or sold by DBRL to RHI on slump sale basis and they got 2.7 crores shares of RHI and about INR 400 crores cash. Now the remaining business left is small and subscale businesses in Germany and China which are also in the process of being divested. DBRL also holds about INR 125 crores worth of DBL shares and there are small assets as well as tax liability on the slump sale transaction and other transaction costs and liabilities which have also been factored into while arriving at the value. And DBRL had also given indemnities up to INR 500 crores for any unforeseen undisclosed liabilities to RHI.

The business indemnities are for a period of 27 months while tax related indemnities are for seven years and fundamental indemnities are for 11 years. So the board had appointed M/s. Finvox Analytics, a registered valuer to assess the fair market value of DBRL stake and we have also taken opinion from M/s. D&A Financial Services, a category 1 merchant banker on the fairness of value arrived at by the valuation firm. And the valuers have considered all these aspects which I described a short while back and valued the company at INR 1,876 crores based on which the management has recommended and the board has also decided to sell its stake at INR 800 crores, which is 42.36%.

Prateek Kumar: May be we can also say at what business was it transferred when we created a pure play refectory company and what has been the growth since then?

Dharmender Tuteja: So when we transferred it, it was at INR 356 crores and the current carrying value as of December end we are carrying value at about INR 402 crores after factoring in the pro-reta income earned by this company. So when we transferred our business to DBRL, it was at INR 356 crores as part of the slump sale or demerger or scheme which was done and the last carrying value of 31, December was INR 402 crores and against this now we are selling this as INR 800 crores.

Moderator: We have the next question from the line of Inderjeet Agarwal from CLSA.

Inderjeet Agarwal: Now as you mentioned there the carrying value is INR 400 crores and INR 800 crores is the realization. So is there will be a profit on the books of INR 400 crores? So what is the tax implication both on P&L and also on cash flow because of this?

Dharmender Tuteja: INR 800 crores minus INR 402 crores that is roughly about INR 398 crores will be the profit in March accounts, because now these investments will be held for sale and at realizable value and the tax implication on this gain will be close to about INR 50-odd crores which will get paid in the next financial year when the actual consummation of the transition happens. This will be long term capital gain.

Inderjeet Agarwal: The P&L and cash flow both impacts will be in FY '24 accounts, is that correct?

Dharmender Tuteja: No, I will say that the P&L impact will come in the current year itself and the profit which we will recognize will be post tax, but the actual tax outflow will happen in the next financial year when the deal gets consummated but the impact has to be taken in the current year itself in our books.

Moderator: We have the next question from Viraj Kacharia from Securities Investment Manager.

Viraj Kacharia: Just two questions. The deal which we had with RHI, the book value was around INR 400 crores and upon the transfer, the overall EV we put was around close to INR 2,100 crores including the debt of INR 440 crores, but when we are monetizing this particular stake in Dalmia Bharat refractories, the overall value we have put is somewhere around INR 1,876, why is there a difference?

Rajiv Bansal: Let me take this question. Viraj, see what you have seen is INR 2,100 crores what we are talking about, it is my India business. On top of that, there is Germany business and China business. When you go to the total enterprise value, it is much higher than what we are talking about INR 2,100 crores. So, there are also tax liabilities. When we actually did a slump sale of assets to RHI, there is an income which is booked in the books of DBRL and they have to pay taxes on that. So net-net we have looked at all the factors like those related to indemnities, the transaction cost, and after considering all the factors, it is how the valuation has been arrived. It is not that whatever you have earned by selling unit through a slump sale, it is your income. Then there is taxes, expenses, there is a merchant banking cost, and there are many expenses when it comes to that. When you consider all of that, then the valuation is INR 1,876. It is a net value.

Viraj Kacharia: Two questions. Post this transaction, the way we have structured the deal, the funding for the deal will be realized by partial sale of shares of RHI, once the locking is completed, am I right in thinking that way?

Rajiv Bansal: No, the shares of RHI are held by DBRL. We have sold our stake in DBRLentity to a promoter entity. Now it is in the purview of promoter to finance this deal. And they will finance it from their sources. So they could do from partial divestment of RHI or may not do through a partial divestment of RHI. I think that is something which we will not comment upon. We are into a deal with a promoter entity. They have bought our entire stake in the DBRLthe entity. We have a redemption schedule. And the money to DCBL will come from promoter entity, not from DBRL.

Viraj Kacharia: The reason why I am asking is, you post this, we will still be owning somewhere close to 58% in DBRL. So that is the reason I was asking how they are funding this? And second question I had was RHI recently did an announcement on QIP close to 10% or close to INR 1,500 crores. So in that sense, how are we looking in terms of our role for our stake in RHI? Because we would be one of the co-promoters in that entity?

Rajiv Bansal: I am a pure-play cement company. I have exited my stake in Refractory Business to a promoter entity. Now I have nothing to do with refractories business from today onwards. So what is the future prospects of refractories business in India? How are RHI looking at it? how promoters will fund this? How much stake they will sell? I am not concerned about that. I am running a pure-play cement company. I believe in the growth story of India. I believe in the future success of the cement sector. And that is what we are focusing on. So, all the questions about refractory, how promoters will fund, is not part of our consideration right now.

Dharmender Tuteja: Just to also add that we are not co-promoters in RHI. So it is just a financial stake which we got through the sale of business and we have no management rights there. We are not a strategic player there. So, it is just a financial investment which will get divested in due course.

Moderator: We have the next question from the line of Vivek Kumar from Shiv Sagar Investments.

Vivek Kumar: I have two questions. First, we took 18% of stake in Indian firm RHI India. So, couldn't we have taken a similar stake in the parent because I think the parent is selling at a lower market cap than the Indian firm?

Rajiv Bansal: Again, Let me answer this question. It is very difficult, when we are doing a clear divestment of the refractory business in India. There are many considerations which we have to look at. And it is not about what we want.

Vivek Kumar: But we could have bought 18% in the global company, the parent?

Rajiv Bansal: I could say, I wanted the parent company, I wanted that in India, I wanted X, Y, and Z. it's a negotiated deal. Finally, there is a seller, there is a buyer. It is very easy to say that, why could we do this and why couldn't we do that? Fact is, like Puneet was saying and MR Singhi said, you have got a fantastic deal. How many companies in refractory business today globally are able to divest the business at almost 24-25x in the EV/EBITDA multiple, hardly any. Even if you look at the Indian valuation of refractory business, its not that high. So you have to appreciate that, the management team of refractory business has done a great deal.

Vivek Kumar: But we are getting the stocks of RHI India. That could be inflated due to the market -- the stocks can fall so, it is actually a share stock…

Rajiv Bansal: But again, because it is a market, in the cement business, I am not taking the risk. We have exited the business. Now the risk is again, see, there is a buy and sell any transaction, we wanted to build on a pure-play cement company. We have exited the refractory business…

Vivek Kumar: I was just looking from the group point of view?

Rajiv Bansal: No, this is not group. See, we have sold this to the family entity. We are representing Dalmia Bharat Limited only.

Vivek Kumar: No, the overall Dalmia Group, I was just thinking on that, why couldn't we take in RHI global company for the go?

Rajiv Bansal: Fair question, I think we should, when we have a discussion on Dalmia Bharat Group, in a growth strategy and promoter strategy, we should definitely discuss that…

Vivek Kumar: Second question, sir. Why couldn't we have given the shares of RHI, this Dalmia Bharat Refractory and get it listed to the shareholders of Dalmia Cement? Could this have been done, getting listed, the Dalmia Bharat Refractory company getting listed?

Rajiv Bansal: Multiple options were explored when we were looking at it. So, it's always a view, you can have a view that we should have given the shares. So, but we got advised it is not possible.. So, I think, best is, what is the purpose, purpose was not give the return to the shareholder, purpose was to generate enough cash to be able to flow back in the business…

Vivek Kumar: Yes, I got the point. You wanted cash in Dalmia Cement…

Rajiv Bansal: So, I want to grow the business. If I don't use up the cash, I will give it back to the shareholders. But if I have use of cash and I want to invest for the future, I would want to flow the money back into the DCBL balance sheet.

Vivek Kumar: So, any plan to list the Dalmia Bharat Refractory in later time, like in one, two years?

Rajiv Bansal: Again, Dalmia Bharat Refractory business is now a promoter-owned company. I think, the question is not for us to decide whether, how they plan to run that company and how they plan to run. It's very difficult for me to answer this question.

Moderator: Thank you. That was the last question. I would now like to hand it over to Mr. Dalmia for closing comments.

Puneet Dalmia: Thank you very much for joining at short notice. We appreciate your interest, and we appreciate your feedback. Thank you very much. We look forward to talking to you again after the full financial year, '23 results are closed. And we can share our outlook for the whole year and the future in that call. Thank you. Have a good day.

Management: Thanks, everyone. Thanks.

Moderator: Thank you. On behalf of Dalmia Bharat Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.