

Dalmia Bharat Enterprises Ltd.
Q3 FY11 Earnings Conference Call
14th February, 2011

Moderator: Ladies and gentlemen good day and welcome to the Q3FY11 Results Conference Call of Dalmia Bharat Enterprises Limited hosted by Almondz Global Securities Limited. As a reminder for the duration of this conference, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Harjit Singh of Almondz Global thank you and over to you sir.

Harjit Singh: Thank you Marina. Good evening everyone on behalf Almondz Global Securities, I welcome Mr. Puneet Dalmia, Managing Director, Mr. Deepak Sogani, Executive Director Strategy and Corporate Finance and Ms. Himmi Gupta, Senior Manager – Investor Relations from Dalmia Bharat Enterprises Limited. I would now request them to take us through Q3FY11 results, over to you Ms. Himmi.

Himmi Gupta: Thank you Mr. Harjit. Good afternoon ladies and gentlemen. Welcome to Dalmia Bharat Enterprises Limited Q3FY11 Conference Call, I have with me on the call Mr. Puneet Dalmia, Managing Director & Mr. Deepak Sogani, Executive Director to discuss some of the recent events and results of the company. We commence the call with comments from Mr. Dalmia followed by additional details from Mr. Sogani. This will be followed by an interactive Q & A session. I would like to mention that certain statements that may be made or discussed on the conference call may be forward looking statements; the actual results may vary significantly from these statements. The company does not offer to update them publicly to reflect the change in performance. A detail statement in this regards is available in the results presentation made available by the company. I would now like to invite Mr. Puneet Dalmia to share the key highlights of DBEL.

Puneet Dalmia: Greetings to everyone, I have the privilege to welcome all of you on the Second Investor Call of Dalmia Bharat Enterprises Limited. The demerged company, after demerging of erstwhile Dalmia Cement (Bharat) Limited in September 2010. I hope you would have received the presentation on Q3FY11 performance shared a while ago. Now let me share some perspective on the performance for DBEL in the quarter gone by. During the quarter our performance on the cement side of the business has been fairly good due to strong support from price level in the southern market and further supported by stable performance in power and other miscellaneous businesses. The consolidated performance

shows revenue in Q3Y11 up by 29% to 442 crores YoY and up by 6% sequentially. At EBITDA level, for Q3FY11, the company records the consolidated EBITDA of Rs. 99 crores up by 62% on a YoY basis and up by 310% on a QoQ basis. In the cement business the overall industry demand in the Southern state, had dipped by 12% on a YoY basis and 17% on QoQ comparison, primarily due to the monsoon impact which has prolonged this year coupled with poor demand from AP as compared to last year. As against the industry our dispatches have improved 10% on a YoY basis, while the same is down 11% on a QoQ basis. During Q3FY11 the average trade price realized has increased on an average by almost Rs.53 per bag, on a YoY basis to Rs. 266 per bag and Rs.56 per bag on a QoQ comparison. Our associate company OCL in which we hold 45% stake as reported its financial results a few days back. The company has plants located in Orissa and catering to eastern markets where the cement prices have been volatile during the quarter under review in comparison to other geographies. The company has recorded a growth in the revenue of 8% in Q3FY11 to Rs.344 crores on a YoY basis. The EBITDA for Q3'11 is Rs.66 crores which are declined marginally by Rs.3 crores on YoY basis. Eastern market demand on YTD basis has shown a growth of 12% on YoY basis. In the power business the newly set up 27 MW Ariyalur Plant has produced 3.33 crores unit during the Q3FY11 as against approximately 4 crores unit during H1FY11 indicating sign of stabilization of the plant. The EBITDA contribution for Q3 is Rs.6 crores up by 23% on YoY and up by 15% on QoQ comparison. The power business is shaping up with better capacity utilization as captive consumption as well as outside sale is increasing though there are challenges posed by lower realization of per unit of rate from the grid which has declined by 18% to 4.8 as compared to the same period last year. Other miscellaneous businesses mainly comprise of Dalmia Refractory Business. The business has been contributing stable EBITDA to the consolidated results. On the restructuring side the company has completed all the formalities to give effect of the demerger. The company share has been listed on the BSE, NSE and MSE on Jan 27th 2011. Further the cement company's name has been changed from Avnija Properties Limited to Dalmia Cement Bharat Limited. Post demerger as expected KKR funding to the tune of Rs.500 crore was received in the month of September 2010. The company is evaluating the final plans for its Greenfield Expansion and would soon inform with the details as and when the same is finalized. The net debt equity ratio of the company has significantly improved as compared to YoY basis. The company is looking at all options to use the available fund in the best judicious form in the short term and in the process, has replaced some of the high cost long term borrowings. The total current debt in the company is reduced to Rs. 1,899 crore at the end of FY11 as compared to Rs.2,118 crores standing at the close of Q2FY11. The net debt equity ratio is 0.4 at the end of Q3 as against 1.3 prior to restructuring and KKR funding. Cement is yet to see a lot of growth and we are well placed to plan a sector leadership growth for the company in terms of capacity profitability, sustainability and CSR. The focus of the management is to continue to

deliver on the growth of both operating metrics and earnings. Now I would like to handover to Mr. Sogani who will take you through the detailed financials.

Deepak Sogani:

Thank you Puneet. Ladies and gentlemen, I thank you once again for taking interest in DBEL and for being present in this call. I shall be discussing operating and financial performances of the company for the quarter under the reviewed period. For the benefit of the listeners I want to state that all comparisons will be made with the comparable period of the previous year except where specifically highlighted further I shall be referring to the consolidated performance of DBEL. In cement business, gross revenue stood 396 crores as compared to 305 crores last year in the same quarter up by 30% on YoY basis. To provide you some color of the cement volume we sold 1.04 million ton of cement in the quarter as compared to 0.97 million ton in the comparable quarter last year, thus showing an increase of 7% on a YoY basis. Average realization in cement stood at Rs 3,753 in Q3FY11 as compared to Rs. 3,129 in the corresponding period last year and Rs.2,785 per ton in Q2FY11, up 20% on YoY basis and 35% sequentially which is in line with the regional price movement. The EBITDA on cement sale has improved to Rs.851 per metric ton for Q3FY11 which is higher by 45% on YoY basis and by 524% sequentially. On a per metric ton comparison freight has contributed a reduction of 5% on a YoY basis while the power and the fuel cost has increased by 10%. The company continued to make headway in its core market of Tamil Nadu, Kerala and AP and is expected to show higher growth rates in the coming quarter backed by demand from both trade and non-trade sectors. During the nine month period ending December 2010, the company sales in Tamil Nadu was higher by 11%, in Kerala by 6% and in Karnataka by 7% compared to similar period in the last year while in AP due to slow demand the increase was only 0.5% on YoY basis. In OCL the volumes grew by 22% in Q3FY11 on YoY comparison and by 12% during the nine month ending December 2010 on YoY basis. Prices have declined and the unit realization has dipped to the tune of 6% on QoQ comparison and 12% on YoY comparison. The impact of price decline is compensated by the additional contribution earned because of higher volume whereas the other cost factors like power and fuel cost, freight, selling expenses are in line with the cost on YTD basis incurred in the same last year. Overall, the demand of the industry on YoY basis in the eastern region has shown a growth of 12%, mainly contributed by Bihar by 16%, West Bengal by 12%, Orissa and Jharkhand both by 9% and all of these are on the YoY basis. For OCL, the growth on YoY basis has been contributed mainly by Bihar by 80%, West Bengal 20%, Orissa 16% and Jharkhand 10% on YoY basis. In the power business, the total power business generated is 29.63 crores unit KWH during the first nine months of FY11 against 22.36 crores units for the same period last year showing an improvement of 33% on YoY comparison. The EBITDA of the operation has been affected due to increase in variable cost per unit of generation on account of increase in coal prices on one side and adjusting the tariff on the other side. Moving on our interest cost in Q3FY11 was at Rs.42 crores up from Rs.28 crores during the same period last year given debt

undertaken towards capacity creation in cement as well as capitalization of Ariyalur CPP plant. DBEL has earned treasury income on its liquid investment. During Q3FY11 it has earned Rs.6 crores as against 3 crores in Q3FY10. Taking into account Avniya stake in OCL India, the latter contributed to Rs.36.6 crores to DBEL consolidated bottom line during the nine months period ended December 2010.

I want to touch on upon some of the key factors that influenced our performance during this quarter better PMT realization in cement business in DCBL. On the contrary in OCL benefits from higher volume has squared up the impact on lower realization PMT resulting into marginal changes in EBITDA on QoQ comparison. Lower state tariff and higher fuel costs in power business resulting in lower EBITDA on per unit of generation on YoY basis. Company's improved debt equity ratio to reduce the financial risk and to provide strength in the balance sheet. That brings us to the end of our comments on the results and we would now request the moderator to open the forum for queries.

Moderator:

Thank you very much sir, we will now begin the question and answer session. The first question is from Supriya Madia from HSBC Investdirect, please go ahead.

Supriya Madia:

I just wanted to check, what is your outlook on price realization going forward? How is the demand pick up happening in the industry and by and large what are your expectation from the union budget in support of your cement industry.

Puneet Dalmia:

I think let me take the price and demand outlook first, this the fourth quarter which is actually a most robust quarter in terms of demand because the monsoons are over now, the construction activity typically picks up after Pongal in January in South India. So we are seeing, a quarter where prices will stabilize to move north because of better demand and we expect this quarter to be better in terms of both demand and price. In terms of the longer term scenario which is Q1 and Q2 of next year. I think we continue to expect better demand than what we have because of the lower base effect in Andhra Pradesh and hopefully the demand growth numbers next year will be better than this. Recently the impacts on prices probably will be better but the medium term scenario as I said if I take a two year view, we think there is substantial supply in the market and we expect continued volatility in prices, even though my short term outlook is positive for both the demand growth as well as pricing, I think my long term outlook is cautious. Back to our expectations from the budget, our biggest expectation is rationalization of duty across the sector, I think excise duty is charged on a MRP basis and cement is the only product where there is no abatement available. We don't get the full MRP in our books, we get only the ex factory realization and this is the abatement which has been pending with the ministry. So I hope that there is some thing for that. The second thing that we have is, I think on the coal side. That is we still import a lot of coal and we hope that the coal import duty to be brought down to zero and we also hope that the coal linkages which the

industry has to be looked at more favorably, these are the two things which we are talking.

Supriya Madia: Sir what are our current linkages for the coal?

Puneet Dalmia: We import all our coal.

Supriya Madia: Okay sir thanks a lot.

Moderator: Thank you. The next question is Jinesh Gandhi from Motilal Oswal, please go ahead.

Jinesh Gandhi: I am fine. My question is on how is your current realization vis-a-vis 3Q average and how is your EBITDA now vis-a-vis 3Q average?

Puneet Dalmia: I think we won't like to comment on the spot numbers but basically as I said we expect prices to move north this quarter.

Jinesh Gandhi: Okay.

Puneet Dalmia: And it will have a consequential impact on EBITDA.

Jinesh Gandhi: Okay right and with respect to demand in southern states although we have seen sequential improvement to some extent are we seeing state elections related demand picking up in states like Tamil Nadu where we expect election coming up.

Puneet Dalmia: I think it is hard for me disassociate the impact of the strong Q4 quarter which is always there, vis-à-vis the impact of election. So we are seeing robust demand this quarter Jinesh.

Jinesh Gandhi: Okay.

Puneet Dalmia: How much of it is due to the q4 effect vis-a-vis the election effect, I think we haven't really segregated it.

Jinesh Gandhi: Okay right.

Puneet Dalmia: But we are not seeing any special schemes being launched in the next 60 days which will have big spike in demand where as far as the election are expected some time in April, May.

Jinesh Gandhi: Right.

Puneet Dalmia: So we are not seeing any specific schemes when we suddenly have spike in demand.

- Jinesh Gandhi:** Okay. And lastly in terms of in Andhra Pradesh we have heard about demand from low cost housing coming back, are we actually seeing demand from the government or it is just that initial....
- Puneet Dalmia:** I think we are seeing some revival on the ground in terms of political talk but how soon this will be kicked off, how soon cement will start going there is still pending. There is also talk of revival of irrigation projects so we will see how it eventually pans out on the ground. But I think the situation in Andhra Pradesh, it is overall still volatile but hopefully it will improve due to the low base effect from next year.
- Jinesh Gandhi:** Right, but I mean obviously base effect will come into picture but overall, we still expect utilization rates to be sub 80% next year as well, isn't it?
- Puneet Dalmia:** Yeah, absolutely.
- Jinesh Gandhi:** Okay Puneet thanks and all the best.
- Moderator:** Thank you. The next question is from Sangam Iyer from Alfa Accurate Advisors, please go ahead.
- Sangam Iyer:** Yeah, sir just a follow up on the previous question where you mentioned that the prices would move north in this January, February, March quarter. The first half of this quarter are we seeing some strong traction coupled with volumes as well?
- Puneet Dalmia:** Yeah we just report our January numbers, I think in terms of volume and we heard it was a pretty healthy set of numbers compared to YoY.
- Sangam Iyer:** And in terms of the pricing as well it has been quite steady is it right? Or in terms of movement towards.
- Puneet Dalmia:** There has been an improvement in Andhra Pradesh in prices but Tamil Nadu, Kerala and Karnataka have been pretty stable.
- Sangam Iyer:** Okay and sir with regards to purchase of coal which we import almost all of them, do we enter into any long terms contracts or is it mainly on spot basis?
- Puneet Dalmia:** We mostly enter into spot contracts with some discount to the prevailing index.
- Sangam Iyer:** Okay.
- Puneet Dalmia:** Deepak you want to add something?

- Deepak Sogani:** Although, we do have some contracts that are committed as well, while we do have a long term contract and we have a discount to the API for the index, which is the base line for our procurement. So that for some contract we only locked in the rate but that is not like, we don't cover the entire year requirement, we cover may be say 20-25% of the requirement through pre-committed shipment.
- Sangam Iyer:** 20-25% through the pre-committed.
- Deepak Sogani:** That is what has been made.....
- Sangam Iyer:** Okay, thanks a lot sir.
- Moderator:** Thank you. The next question is from Abhishek Parthasarathy from BNP Paribas, please go ahead.
- Abhishek P:** Hello sir, this is Abhishek. Just one quick question on slide 9 of your presentation, when you say the India prices and South prices, do the South price includes Karnataka or just the states that you operate in.
- Deepak Sogani:** Yes they include Karnataka.
- Abhishek P:** Okay. Thank you very much sir.
- Deepak Sogani:** Actually we also operate in Karnataka.
- Abhishek P:** Oh! Okay. Thank you.
- Moderator:** Thank you. The next question is from Supriya Madia from HSBC Investdirect, please go ahead.
- Supriya Madia:** This is a follow-up question Sir. This is in regard to the free trade. Are we expecting any rise in the free trade, during the budget?
- Puneet Dalmia:** During the budget you mean?
- Supriya Madia:** Yeah.
- Deepak Sogani:** During the budget, in the railway trade rate, it is very difficult to comment. I think from our own internal operational point of view earlier reported during the earnings call Supriya, our logistics cost has gone down by about 5%. And that has gone down primarily because, we had started using road more to the nearer areas.
- Supriya Madia:** Okay. So what would be our role in rail proposition now?

- Himmi Gupta:** This is Himmi Gupta, 81% is through road and rest is through rail. This is in the current quarter, Q3.
- Supriya Madia:** Okay that is going to sustain, even going forward?
- Deepak Sogani:** Meaning as we said earlier, strategy what we have done is that the closer distances are being covered more by road, then by rail. And that is helping us to improve the cost.
- Supriya Madia:** Okay sir, thanks a lot.
- Participant:** Hello yeah. Sir I had one question, where you mentioned the EBITDA per ton for the cement division is 851 Rupees per ton and you also mentioned that medium term outlook you are cautious while near term positive. What I want to understand is that this 851 per ton, will it move in a narrow band or will we see wide amplitude like the way we had seen in, past 3-4 quarters. So what is your sense from here on for your company and for the industry?
- Puneet Dalmia:** I think that is a great question. I wish I knew the answer, but let me still take a guess. I think in the near term the band is going to be pretty narrow. I don't think the fluctuations are going to be very wide but in the long term, I think it is very hard to predict.
- Participant:** Alright sir, thank you.
- Puneet Dalmia:** Thanks.
- Moderator:** Thank you. The next question is from Rajan Kumar from Indiabulls Securities, please go ahead.
- Rajan Kumar:** What is the status with your company, means is that issue being sought by all the cement companies in AP, I am not able to exactly recall the entity name, they were asking for higher charges for fly ash from India cement and Zuari cement, which was being contested in High Court.
- Puneet Dalmia:** Yeah, I think for our Kadapa plant we have a long term linkage, based on one of the power plant, which is very close to our factory. And as of now we have not received any demand for higher than the contracted price.
- Rajan Kumar:** What is the contracted price?
- Puneet Dalmia:** We can't disclose that.
- Deepak Sogani:** Yeah. I think forward, let me just I think give a direction on the cost though. If we look at the last year's quarter three average cost per ton of landed fly ash at our plants and in the

current year Q3, the costs are very similar. So we have not actually gone up on the cost side of fly ash.

Rajan Kumar: It has not gone up. The rates stalked about were Rs.80, being revised to Rs. 50. So by your statement, we believe it is Rs.80 still for you.

Puneet Dalmia: As I said I think we have a bilateral agreement with the power plant in Andhra Pradesh and we have not received any contract revision notice. However, I don't know the prices at which our competitors are buying. So I am not committing on whether that number is Rs.80 or not but we are getting fly ash as per our contractual terms.

Rajan Kumar: Okay sir, thank you.

Moderator: Thank you. The next question is from Medha Tarke from Marwadi Shares & Finance, please go ahead.

Medha Tarke: Good evening sir. My question is regarding the power revenue. I just would like to know how many number of units that have been sold externally during the quarter.

Himmi Gupta: This quarter we sold 26 MW to the grid, as compared to 12 MW last year same quarter.

Medha Tarke: Okay and the outlook on the merchant power rate.

Deepak Sogani: I think, as we already reported that we saw a decline in the tariff by 18% on a YoY basis.

Medha Tarke: Yeah.

Deepak Sogani: As far as outlook is concerned, I think we are able to sell the electricity in the current rate and we do believe that there is a possibility to sell at a better rate from April onwards. But that is something that is yet to be confirmed.

Medha Tarke:: Okay sir, thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Harjit Singh for closing comments.

Harjith Singh: On behalf of Almondz Global Securities I thank Mr. Puneet Dalmia and his team for their valuable time.

Moderator: Thank you very much.

Puneet Dalmia: Alright thank you.

Moderator:

On behalf of Almondz Global Securities Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.