“Dalmia Bharat Enterprises Limited Q3 FY12 Earnings Conference Call”

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Moderator Ladies and gentlemen, good day and welcome to the Dalmia Bharat Enterprises Q3 FY12 earnings conference call hosted by M.F. Global Sify Securities India Private Limited. As a reminder for the duration of this conference, all participant lines 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, 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. Vaibhav Agarwal from M. F. Global Sify Securities. Thank you and over to you sir.

Vaibhav Agarwal On behalf of M. F. Global Sify Securities India Private Limited, we welcome you to the Q3 FY12 earnings conference call of Dalmia Bharat Enterprises Limited. We have with us Mr. Puneet Yadu Dalmia who is the Managing Director of the company, Mr. Deepak Sogani, the Executive Director, Strategy and Corporate Finance, and Ms. Himmi Gupta, AGM, Strategy and Investor Relations. I will now hand over the floor to the Management of Dalmia Bharat Enterprise Limited who will make an opening presentation and we will then take up Q&A. Over to you Puneet sir.

Himmi Gupta This is Himmi Gupta. Thank you Vaibhav. Good afternoon ladies and gentleman, welcome to Dalmia Bharat Enterprise Limited financial year 2011-12 3rd Quarter conference call. I have with me on the call Mr. Puneet Dalmia, Managing Director and Mr. Deepak Sogani, Executive Director to discuss some of the recent events and results of the company. We will 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 regard 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 everyone. Let me share some perspective on the performance of DBEL in the quarter gone by. During the quarter, our overall performance of the business as a whole has been fairly good, led by the cement side of the business in the southern market and further supported by stable performance of other miscellaneous businesses. The consolidated performance shows growth in revenue in Q3 up by 24% to 620 crores on YOY basis and down by 9% on QOQ basis. YTD revenue for nine months up to Q3 2012 is up by 39% to 1903 crores on a YOY basis. At the EBITDA level for Q3 2012, the company has reported a consolidated EBITDA of 143 crores up by 45% on a YOY basis and down by 15% on a QOQ basis. The YTD EBITDA for nine months up to Q3 2012 is up by 216% to Rs. 442 crores on a YOY basis. In the cement business, the overall industry demand in the south has improved by 5% on a YOY basis and dipped by 7% on a QOQ basis. During the quarter under review, Kerala has reflected a growth of 11% and Karnataka has improved by 10% while Tamil Nadu and AP are flat on a YOY comparison. As against the industry, our dispatches have improved by 18% on YOY basis and dipped by 13% on QOQ basis. Our associate company, OCL India Limited, in which we hold 45% stake has reported its financial results a few days back. The company has plants located in Orissa and is catering to eastern markets where the cement prices have improved during the quarter under review. The company has recorded a growth in gross revenue of 24% in Q3 to Rs. 488 crores on YOY basis. The EBITDA for Q3 is 104 crores which is higher by 57% on YOY basis mainly due to improved volume and better price realizations in the region. The eastern market has been flat on a YOY comparison against which OCL volume has grown by 5%.

In the power business during the quarter under review, the power generation has dropped by 12% to 7.8 crore units on a QOQ comparison. The drop in power generation is mainly because of curtailing the power sale to TNSEB due to poor economics because of lower realization from TNEB. The situation has improved during December 2011 with upward revision of power purchase rates by TNEB from Rs. 3.7 per kilo watt hour to Rs. 5.05 per kilo watt hour. This is rightly to improve performance in Q4 2012 with better realization rate and would lead to resuming higher sales to the grid. As a part of our growth strategy, I am glad to share that we have agreed to acquire 50% shares in Calcom Cement at a consideration of Rs. 238 crores. This is a first significant inorganic growth initiative by the group. Calcom Cement India is a manufacturer of OPC and PPC cement based out of Assam and is catering to the north east market and is currently expanding its consolidated cement manufacturing capacity to 2.5 million per ton per annum. Cement is yet to see a lot of growth and we are well placed to plan a sector leadership role 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 matrix and earnings. Now I would like to hand over to Mr. Sogani who will take you through the detailed performance for the quarter.

Deepak Sogani Thank you Puneet. Ladies and gentleman thank you once again for taking interest in DBEL and for being present on the call. I shall discuss the performance of the company for the quarter under the review period. For the benefit of listeners we would like to state that all comparisons will be made with the comparable period of previous year except where specifically highlighted. Further we shall be referring to the consolidated performance of DBEL. To provide you some color of the cement volume, we sold 1.63 million ton of cement in the current quarter as compared to 1.04 million ton in the comparable quarter last year thus showing an increase of 18% on a YOY basis. The average realization in the cement stood at Rs.4189 in the current quarter as compared to Rs.3753 in the corresponding quarter of last year and Rs. 4016 in the Q2 FY12 up 12% on YOY basis and up by 4% sequentially which is in line with the regional price movements. So EBITDA on the cement sale has improved to Rs.1046 per metric tonne for current quarter which is higher by 23% on YOY basis, and lower by 3% sequentially. On a per metric tonne comparison power and fuel cost have increased by 7% on a YOY basis and freight charges have increased by 15% on YOY basis as well.

The company continued to make headway in its core market of Tamil Nadu, Kerala, AP and Karnataka and is expecting to show higher growth rates in the coming quarters backed by demand from both trade and non-trade sectors. In OCL the volume increased by 5% in Q3 FY12 to 0.9 million ton on YOY comparison and by 11% on QOQ comparison. This has improved during the quarter under review and the average realization has increased to Rs. 3797 per ton to the tune of 18% on YOY basis and 20% on QOQ basis. EBITDA per metric tonne has improved to Rs. 1028 per metric ton for the quarter under review as against Rs. 290 per metric tonne on sequential comparison. Apart from improved volumes and increased prices EBITDA has gained by lower power and fuel cost which is decreased by 9% on QOQ comparison.

The total current net debt of the company has reduced to Rs. 1098 crore at the end of Q3 FY12 as compared to Rs. 1280 crores standing at the close of Q4 FY11. The net debt to equity ratio is at 0.4 as at the end of Q3 FY12. Moving on our interest cost in Q3 FY12 was at Rs. 42 crores from Rs. 43 crores during the same period last year primarily due to the repayment of debt inflation while part of the savings was further due to the rise in the interest rates and exchange fluctuation loss booked on foreign currency loan.

I want to touch upon some of the key factors that influenced our performance in this quarter that is PMT realization in cement business in DCBL leading to stable EBITDA per metric ton on YOY comparison. In OCL higher volume and better PMT realization resulted into increase in EBITDA per metric ton on YOY comparison. Dalmia Refractory and miscellaneous business has provided stable cash flow DBEL. Company has improved debt-equity ratio to lower financial risk and to provide strength to balance sheet. This brings us to the end of our comments and the results and we would now like to request the moderator to open the forum for queries, thanks.

Moderator Thank you very much sir. We will now begin with the question and answer session.. Our first question is from the line of Jay Ashar from JM Financial. Please go ahead.

Jay Ashar Congrats on good set of results. Few queries on your acquisition first. Can you please share what is the assumed debt in this transaction of Calcom cement?

Deepak Sogani Jay, I think we are in the process of getting the debt restructured and also to assess the right level of the additional project cost that is required over there. We are in the process of expanding the capacity and I think we will be able to share this but perhaps a bit later.

Jay Ashar Can you share at least the valuation multipurpose which this deal was done?

Deepak Sogani I think you know right now what is sharing is 238 crore equity for 50% stake.

Jay Ashar What is the current capacity of that company?

Deepak Sogani The Company is in the process of expanding to 2.1 million tons. It got 0.4 million ton existing old capacity and then 0.85 million ton grinding unit is already up and running, another 0.85 million tons grinding unit is about six months way and the clinker unit will take another 18 months.

Jay Ashar So the deal final closure will take at least couple of more quarters? Is it right to assume that?

Deepak Sogani The closing of the transaction is over, but we will fund it over to the next few quarters based on statutory and other conditions that we need to complete.

Jay Ashar Any broad comments on the sector demand outlook for the coming quarters?

Puneet Dalmia I think we are seeing a slight uptake in demand, in fact if you look at Andhra Pradesh that negative growth thing has kind of reversed to zero growth in the current quarter and if you look at the south India numbers, we have seen a plus 5% kind of growth, so I personally think this quarter we are seeing a reasonably good demand but as I said given the overall macro situation in the country I still retain a cautious outlook unless there is a much better political stability in the coalition at the Center and in specific state governments.

Jay Ashar Thank you. Appreciate your comments.

Moderator Thank you very much. Our next question is from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

Pranav Gokhale Good evening sir. Sir just couple of questions on book keeping first. Can I understand the reason for increase in freight cost on power and fuel cost quarter-on-quarter per ton basis it looks up from 550 to 625-630?

Puneet Dalmia There are a few reasons for that Pranav. The first obviously there was this increase in diesel prices which actually happened on the 26th June and while we had ongoing contracts at that point of time and we were in the process of renegotiating our contracts based on the increased diesel prices, in the current quarter for which the financial performance has been reported the increase diesel prices have been factored-in, that is one. Second, our lead distance has gone up from 290 to 320 kms in this quarter versus last quarter primarily because a larger part of our growth is happening in our newer markets in AP and Karnataka which are long lead and logistically more expensive quarters. And third reason is that the railways has actually you know increased their freight charges. There is a busy season charge that had been increased from 7 to 10% which is applicable from 1st of October till June of next year, so 10% additional charge on railway freight from this quarter onwards is applicable and the development surcharge also from the railway side has been increased from 2% to 5% for all times to come, it is not just a busy season charge. So all in all there has been 6% increase in the freight charges in addition to the diesel charges and re-distance change. That is what has contributed to this cost going up to 562 to 624.

Pranav Gokhale On the power and fuel cost?

Puneet Dalmia Did you first of all get the freight one completely?

Pranav Gokhale I did get the freight one, but on the power and fuel cost sir?

Puneet Dalmia On the power and fuel cost in the current quarter, our power and fuel cost is 1354 versus last year's current quarter of 1263. Primarily this is on account of the coal price hike so if you see in the current quarter, we purchase coal at about Rs. 6347 per ton versus last year's comparable quarter of 5730 per ton which is 11% up and even on a YTD basis, the coal cost is around 20% up so it is 6156 per ton on a YTD basis as compared to last year nine months comparable YTD basis of around Rs. 5000 per ton. So primarily the coal cost increase is flowing through the increase in the power and fuel per ton in addition to that what has happened is because we were supplying our surplus power to Tamil Nadu Electricity Board and in the quarter for which the financial has been reported, we were not supplying as much electricity to them because the power tariff was lesser because of the lower utilization of the PPC, the PLF was also lower, so to some extent coal cost and to some extent operating efficiency, both were responsible for increase in the power cost.

Pranav Gokhale Even quarter-on-quarter this increase is due to what exchange rate?

Puneet Dalmia Yes, you are right. As I mentioned on a quarter-on-quarter basis, we have seen less than 11%. Quarter-on-quarter is more like 1% only, let us not set eye on that, it is at the operating efficiency which perhaps has impacted more on the quarter-to-quarter basis.

Pranav Gokhale Because my numbers tell me it's gone up from 1122 to 1286 this quarter so I thought let me just kind of check this out. It is about 14% increase.

Puneet Dalmia See the volumes have also come down in the current quarter compared to the last, so I think because of the dip in the volume and the fact that we are not utilizing our products launch completely, some efficiency factor more than the coal factor in the current quarter.

Pranav Gokhale Just in terms of understanding this management services business, could you just help me in terms of what this business is about and what is the kind of capital employed which gets in this kind of a business?

Puneet Dalmia I think the management services business, we are supporting the various businesses of our own group and whatever infrastructure and additional manpower, etc., is required for supporting the various phases of our growth, really get covered under the management services structure.

Pranav Gokhale But the capital employed there seems to be going up about 125 crores odd invested in the end of FY11, it has gone up to 200 crores so just in terms of understanding, is it a capital intensive business or it is more service oriented and capital employed is not going to be so much?

Puneet Dalmia It is certainly not capital intensive. It is only service oriented and, therefore, the capital employed really is a reflection to my mind of the profitability that is coming into that business which is getting retained by the management services division.

Pranav Gokhale **S**o it's not any incremental CapEx which is going into the business?

Puneet Dalmia You see our next cash balances, that is getting deferred to this.

Pranav Gokhale Thank you and all the best to you.

Moderator Thank you. Our next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria I have two questions, first if you could give us some sense on how pricing is shaping up post the rainy season in south India? And second, now that south India has started showing some growth, what according to you would be key catalysts for growth to move to a more stronger plus 8-9-10% cadre going forward?

Puneet Dalmia If you look at slide number 17 of our presentation which we have circulated the pricing in south India on a QOQ basis has one up by 1%. Just look at the second line the first column, so basically despite the rainy season and demand being a little subdued, pricing has been pretty stable for the quarter. And if you look at the nine months numbers compared to previous year south India has actually bounced back quite well because last year the prices were quite low and this sharp 22% increase is actually reflective of the fact that there was improvement in prices. So I think my own view is I personally think that now the rainy season has gone and demand is likely to pick up a little bit more so I see stable to marginal increase in pricing if at all there is cost inflation which we are seeing, we may be able to pass on part of it to the consumer. So I think an overall stable pricing outlook and perhaps a marginal increase is driven by cost inflation. In terms of demand, as I said what it will take to go to 10%, I think Andhra Pradesh has to finally perform well and if you flip to slide number 8, where we have looked at the Q3 growth in market by state and also to nine months, so you see Andhra Pradesh has grown 2% in this quarter, even though the nine month number is minus 12%. So I think we have to see whether this growth that Andhra has shown sustains or just a blip. Really personally I think the biggest thing that I see is will Andhra continue to perform and will Karnataka continue to perform. Karnataka is again 10% for this quarter. It had a negative growth in the first six months. So, will Karnataka and Andhra deliver well is something we have to watch out for because in both these places the government is unstable. Tamil Nadu it's a new government, still getting its act together because the first six months were basically undoing what was done in the last regime. A lot of political decisions were taken and now I think the government is looking back to build infrastructure. In fact the Tamil Nadu Chief Minister has just concluded a session with the Japan on infrastructure and she came up with a statement yesterday that Japan is going to partner with Tamil Nadu in investing in infrastructure. So I think it is some of these things, investments in power in Tamil Nadu stabilizes, I think Tamil Nadu will do well. I do not see a flat growth in Tamil Nadu in a first nine months as representative of the future, but I am pretty confident that there is a strong government in Tamil Nadu; it is a question of time when they get their act together and push the development agenda. But real question for me is whether Karnataka and Andhra will perform.

Neha Manpuria So in that context for AP and Karnataka given how the government situation there is, do you see that turning around anytime in the next six to nine months or do you think it would be more second half of FY13-FY14 where we would see growth pickup in those regions?

Puneet Dalmia I personally cautious, I do not think this is going to change dramatically in the next six to nine months.

Neha Manpuria Got it sir. Thank you so much. Thanks for taking my questions.

Moderator Thank you very much. Our next question is from the line of Jinesh Sangvhi from Avendus. Please go ahead.

Jinesh Sangvhi Could you provide us an update on the status on the mining in the OCL, Rourkela mines which has been suspended since January?

Puneet Dalmia We are working on it and we personally think that it will be addressed in this quarter.

Jinesh Sangvhi But at this point of time how are we kind of procuring the clinker or the limestone availability and at what rate would be that plant operating?

Puneet Dalmia We are running on purchased clinker and we are basically continuing to supply to the market. So there is no disruption in the market but, of course, there is a big dent in the margins because of purchased clinker.

Jinesh Sangvhi That is it, thanks a lot.

Moderator Thank you. Our next question is from the line of Paresh Jain from Max New York Life. Please go ahead.

Paresh Jain If I just see the volume and the industry growth rate I think we have grown phenomenally ahead of the market growth, so can you just comment on that as to how we are doing that isn't leading to some sort of pricing disruption that we are seeing in the market?

Puneet Dalmia If you look at basically the percentage growth, it largely comes from Karnataka and Andhra Pradesh, a large percentage growth where we are really small players. We have single digit market share and even though we are gaining share, it is not something which is usually disruptive in the market place. So our market share is about 5-6% and we are basically a fringe player right now in that market and we are establishing our place, let us see if we can get to double digit next year or something like that. If you look at Tamil Nadu and Kerala, Kerala market growth is zero, our growth is 2%, but Tamil Nadu is where we have really grown well and that is a market where we have been traditionally very strong and there has been latent demand for our products. We have not expanded as significantly as the market did over the last decade and a lot of our distribution was quite underutilized. So we have basically filled up the demand for our product which was being filled by other players because of lack of availability of Dalmia and I think in both Tamil Nadu and Kerala we continue to leverage our strong distribution and the strong brand that has been created over the last 70-75 years and you can clearly see that the pricing in south India is pretty stable. Even in the monsoon season prices grew by 1% and I think it just proves the strength of the brand.

Paresh Jain Secondly you have also said that some 18 million ton of capacity has been commissioned in all India and south, does it include the JP capacities?

Puneet Dalmia JP Andhra capacity is not included.

Paresh Jain So can you just let me know what are the capacities that we have included in this?

Himmi Gupta Bhavya Cements in Andhra 1.5 million tons, BMM Cements in Andhra 1.2 million tons, Chettinad 1.5, JSW Andhra 2.8, Madras Tamil Nadu 2 million tons.

Paresh Jain Which was second one that you had said?

Himmi Gupta BMM.

Paresh Jain Thank you.

Moderator Thank you very much. We will take a next question from the line of Amrut Mathur from Investor Guide. Please go ahead.

Amrut Mathur I missed out on your dispatch figures, if you would give me that? And two small clarifications, this acquisition has been done by OCL in this Assam Company or Dalmia Cements and just a small point on how you are going to cope-up with these high input costs like coal and transport going forward, sorry for so many questions bunched up together?

Puneet Dalmia What was your first question?

Amrut Mathur What are your dispatches if you could just throw light? I missed that number.

Puneet Dalmia If you switch to slide number 8 that shows Dalmia sales growth which is basically dispatches also, sales is a proxy.

Amrut Mathur Also the acquisition of Assam Cement company has been done by OCL, if I have understood correctly?

Puneet Dalmia That has been done by Dalmia.

Amrut Mathur Last is I wanted to understand how are you dealing with this input cost pressure?

Puneet Dalmia I think basically there are two things that we are doing, one is there is a continuous effort to improve efficiency in the plants so what can we do to consume less fuel, less power, I think that is a continuous effort. We are also looking at how we can change our fuel mix on a per unit of heat value.

Amrut Mathur Are you planning to use more pet coke or something I am trying to understand.

Puneet Dalmia Pet coke and also higher moisture Indonesian coal.

Amrut Mathur Will that help reducing cost?

Puneet Dalmia I think that will help a little bit to the extent we can, I think we are trying to work on the fuel mix to lower cost.

Amrut Mathur What I understand is in the south the real demand has been driven by your real estate and that kind of sector, but the real estate sector is not really doing that well. Are you worried that your key demand sector at the macro level is not doing so well. Is there a cause for concern in the broader aggregate cement, southern cement industry?

Puneet Dalmia No, as I said again if you flip to slide number 8, now we are seeing a recovery in demand in Andhra Pradesh. The Q3 growth in Andhra Pradesh is 2% whereas YTD growth in Andhra is minus 12%.

Amrut Mathur Suppose a real estate guy like a Prestige or a xyz is not doing so well, does that reflect in the cement demand coming down or something, I am just saying hypothetically.

Puneet Dalmia I think the organized real estate sector is still a pretty small percentage of the cement demand.

Amrut Mathur So you mean the small guy in the regional area, he is building his house, he is still demanding cement, I mean?

Puneet Dalmia Exactly. I think the large demand drivers are individual house owners who build their own houses.

Amrut Mathur If I am in a rural area I will have my little small house to make, I will still want my cement irrespective of the economy and so forth?

Puneet Dalmia Exactly and that is not basically done by leverage that is basically financed by your own savings.

Amrut Mathur So that is very strong in the south, I have understood correctly?

Management Yes.

Amrut Mathur Thank you so much.

Moderator Thank you very much. Our next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha If you can give some information on how is OCL doing, we saw some negative growth in the volume number mainly, so how is OCL India expected to do in this quarter as well as next financial year?

Puneet Dalmia If you move to slide number 19, that shows sales volumes for OCL. OCL nine months growth in volume has been 6% over last year. So I think there is no question of negative growth. I think we did suffer a little bit in Orissa.

Shubhankar Ojha I think January was a little bit…

Deepak Sogani We did 899 KMP sales in the current quarter versus last year comparable quarter of 853.

Shubhankar Ojha Current quarter you mean 4th Quarter right?

Deepak Sogani 3rd Quarter. So we have shown some growth over there of around 8-9%.

Shubhankar Ojha How is the overall growth in that part of the country?

Puneet Dalmia If you go to slide number 18, that breaks down the demand growth in eastern region for the last nine months. So you can see Bihar and Jharkhand have been negative, but Chhattisgarh and West Bengal and Orissa have all been contributing well and Orissa has been the most positive like 12% growth.

Shubhankar Ojha Thank you so much sir.

Moderator Thank you very much. Our next question is from the line of Ritu Modi from Ambit Capital. Please go ahead.

Ritu Modi Thank you sir for taking my questions. I just wanted to understand what is your current fuel mix? You said that you have plans to change over to pet coke and high moisture Indonesian coal but currently what is the fuel mix in Dalmia and OCL if you could give me that?

Puneet Dalmia Can we take that question offline?

Ritu Modi Okay no problem. Sir secondly you said that your freight costs have increased in this quarter because of early distance increase in rail freight charges increasing. So could you just tell me broad mix of your rail-road dispatches?

Himmi Gupta Road is 81% and rail is 19%

Ritu Modi My next question was in regards to the demand which you said is actually coming mostly f coming from the individual house builders. So going forward also you expect the IHB demand to remain strong and the demand from the infra and the government spending to maybe stabilize or whatever it was in the 3rd Quarter, do you expect that to remain that way?

Puneet Dalmia I think as I said the retail home demand is basically the base line, that contributes to strong demand growth, but if we have to go into 10% or double digit growth, that will have to come from infrastructure and revival in the real estate and I think that is dependent on political stability and clarity of policy in the country. So as the CapEx cycle in the country starts to pick up, as the GDP growth improves, I think there will be derivative effect on the cement business. So basically Karnataka and Andhra Pradesh have to perform to make sure that we can get into a double digit growth territory and currently I personally believe even though in this quarter we have seen strong demand growth in Karnataka and Andhra I am personally cautious about how long and how well this will sustain in the coming months.

Ritu Modi Typically the trade and the non-trade mix would be in favor of trade, is that right?

Puneet Dalmia Yes.

Ritu Modi One last question how much capacity addition do you expect in FY13 in south and in east if you could just give that figure?

Deepak Sogani The overall capacity in FY13 should be around 35 million tons.

Ritu Modi How much would be the additions in FY13 in south India?

Deepak Sogani They will be somewhere around 8-10 million tons.

Ritu Modi Which you include in the JP commissioning, right?

Deepak Sogani Yes.

Ritu Modi In east India?

Deepak Sogani Around the same 7-9 million tons.

Ritu Modi Thank you, I will come back in the queue if I have any questions.

Moderator Thank you very much. Our next question is from the line of Sonali Salgaonkar from CRISIL. Please go ahead

Sonali Salgaonkar Good evening sir and congratulations on the good set of numbers. Sir my first question is what has been the operating rate for the companies Dalmia and OCL in the first nine months, the capacity utilization?

Puneet Dalmia You can do the maths, our declared capacity is 9 million in Dalmia and 5.4 in OCL.

Sonali Salgaonkar Any CapEx guidance for OCL and Dalmia in the next two years?

Deepak Sogani We are not giving any guidance and CapEx yet.

Sonali Salgaonkar Alright. Thanks for taking my questions.

Moderator Thank you very much. Our next question is from the line of Chan Hua Yang from Navis Capital. Please go ahead.

Chan Hua Yang Congratulations on a set of very good numbers. I just wanted to know if you have an idea of industry utilization, number one, and utilization in south India.

Deepak Sogani The utilization in south India is somewhere around 65%.

Chan Hua Yang And nationally?

Deepak Sogani Somewhere around 70%

Chan Hua Yang Thanks very much.

Moderator Thank you very much. Our next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Jigesh Gandhi Good evening. My question is on your Calcom acquisition. Can you throw some light about the rationale behind acquiring Calcom vis-à-vis setting up a green field capacity? And secondly does capacity addition at Calcom stops at 2.1 or it has further extendable reserve and land?

Puneet Dalmia I think personally we were very impressed with the management team at Calcom and I think this is one of the only projects which is available in Assam. Most of the other capacities in north east is in Meghalaya and this has closed proximity to market because half of the market in north east is in Assam. Secondly I think they have also excellent infrastructure in terms of allowing us to excess other markets as well. One of the things that we thought was that we are getting a site which has structural long term attractiveness vis-à-vis any other site in the north east. The second thing is that overall when we do an analysis all over India, we like north east as a region because it's in the early stages of development, lot of capital is going to get pumped into that region to make sure that there is development across India and our own belief is that the central government is very committed to balance development across different parts of the country. And add to this in that region there are still as a bonus lot of fiscal incentives which makes the projects there very attractive. We are perhaps one of the early movers in terms of national players or, let us say, regional players who are committed to that region, most capacity there is owned by local players. I think we have an early mover advantage apart from investing in a region which we feel is long-term attractive and will offer superior returns as compared to the rest of the country in the cement sector.

Chan Hua Yang Does this plant continue to ensure fiscal incentives and what fiscal incentives we will be looking at?

Puneet Dalmia It does, it basically enjoys all the fiscal incentives that other north east companies enjoy which is excise benefits, VAT benefits and even income tax and transport subsidy.

Jigesh Gandhi In terms of expandability of this plant?

Puneet Dalmia I think in early days, we are still evaluating what is the best way to create a foot print in that region but I think it has sufficient infrastructure and reserves for us to have option value for further expansion but early days for us to be able to fully give guidance on that.

Jigesh Gandhi That is understandable. Would it have impact on your expansion plans especially in Meghalaya?

Puneet Dalmia Well I think, as I said we are not able to comment on a specific regional strategy at the moment and we will evaluate all our options and take a decision whatever is financially most attractive.

Jigesh Gandhi Lastly on your comment on demand-supply equilibrium south India especially at a time when you have two new large entrants making commencement of their operations in south India, how do you see the situation playing out over next three to six months?

Puneet Dalmia I think I have said this earlier in our call that it is a crucial phase and anytime two new entrants come up, there is expected to be some kind of turbulence. We expect more volatility and as far as I am concerned we are very cautious for the outlook in the next 12 months. So we need to see how they behave, how this capacity get absorbed in the market? How the demand shapes up? And all these variables are difficult to predict so I think I am very cautious for the next 12 months and personally I would expect volatility rather than stability.

Jigesh Gandhi Thanks and all the best, Puneet.

Moderator Thank you very much. Our next question is from the line of Salil Desai from IDFC Securities. Please go ahead.

Salil Desai Regarding this power sales to TNEB, just to clarify you have resumed sales from January that was stated on a higher tariff?

Puneet Dalmia Yes.

Salil Desai Then we are not facing any receivable issues any longer or the tariff kind of compensates for the risk? How do you view this?

Puneet Dalmia I think we do not see any default risk from the Tamil Nadu government but you know from a working capital management standpoint we do not see it as a very material issue frankly.

Salil Desai So you get your money largely on time?

Puneet Dalmia Yes.

Salil Desai Second, is even going forward do we see that you will continue to grow at a pace faster than the market? This quarter has been a significant difference between your growth rates and market growth rates? So how would you see this going forward? What would be the company's strategy, market share or trying to grow in-line with the market?

Puneet Dalmia I think we have always maintained that we will continue to grow faster than the market in all the markets that we operate and there is no change in that direction.

Salil Desai Thank you very much.

Deepak Sogani If there are no more questions, perhaps maybe we can conclude the call?

Moderator Sir we have one last question from the line of Rohit Bhatia from the Exane Limited, should we go ahead with his question?

Deepak Sogani Sure.

Moderator Thank you. Please go ahead Mr. Rohit Bhatia.

Rohit Bhatia Hi thanks for taking my question. Just a quick one, on this Coal India pricing issue, what exactly is the expectation of what could happen in April when they will come back and review the price increases in coal, is there any guidance that you guys are giving in terms of what you expect?

Puneet Dalmia Our personal view is that even though there was a rollback in the price increase, Coal India has laid a framework where there would basically increase prices in the future. So they have linked pricing to the quality and the heat value of the coal available and effectively they have laid the foundation for that kind of a structure of pricing in the future. I also think that over a period of time Indian coal will get marked to international parity and the subsidies that the industry enjoys will evaporate over time. So even though there is a rollback, it's an artificial rollback but they have laid the ground for increase in coal prices in the future linked to heat value and getting close to international prices as soon as they can.

Rohit Bhatia In terms of what is your expectation is for what could happen in April, is there any sort of number that you guys are guiding at?

Puneet Dalmia We cannot give a number but that will depend on the pace at which the government wants to create the right pricing for minerals in this country and there are many factors which are effected so we are not able to give a guidance on how coal will be priced, but I think we are clearly seen the direction in which the pricing is heading. And personally I think that will be one big area for cost inflation for most cement plants.

Rohit Bhatia What was exactly discount right now, is it like 30-40% to international coal rate?

Puneet Dalmia In that range, yes.

Deepak Sogani On the calorific value comparison basis, it is more like 20%. On the price basis it's much larger, but the heat content of the Indian coal is much lower than the Indonesian coal and south African coal.

Rohit Bhatia That's great.

Deepak Sogani 20% is current.

Rohit Bhatia Great thank you.

Moderator Thank you very much. I would now like to hand the conference over to Mr. Vaibhav Agarwal for closing comments.

Vaibhav Agarwal Sir just one question from my side, as you have not give any particular capacity addition guidance for Dalmia Bharat Enterprises, is it safe for us to assume that for the next two-three years no additional capacity will be coming for Dalmia Bharat or like both the south and the Meghalaya are on hold for the time being?

Puneet Dalmia No, I think that is not a safe assumption to make but as I said we will make an announcement as in when we are ready.

Vaibhav Agarwal Okay sir not a problem sir. Thanks a lot for the opportunity sir and thank you, all the participants for joining in for the call. On behalf of MF Global Sify Securities I thank all of you. You can now end the call.

Moderator Thank you very much. On behalf of MF Global Sify Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.