Dalmia Bharat Limited's
Q3 FY13 Results Conference Call

February 8, 2013

Moderator Ladies and gentlemen, good day and welcome to Dalmia Bharat Limited's Q3 FY13 Results Conference Call hosted by PhillipCapital India Pvt. Ltd. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. 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 touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vaibhav Agarwal of PhillipCapital, thank you and over to you Sir.

Vaibhav Agarwal On behalf of PhillipCapital India Private Ltd we welcome to the Q3 FY13 earnings call of Dalmia Bharat Limited. We have with us the management of Dalmia Bharat Ltd to address the call, at this point of time I hand over the floor to management of Dalmia Bharat for their remarks and presentation, over to you sir.

Himmi Gupta Thanks a lot Vaibhav. Good afternoon Ladies and gentlemen welcome to the Dalmia Bharat Limited Financial Year 2013 3rd Quarter Conference Call. I have with me on the call Mr. – Executive Director Corporate Finance and Strategy. Mr. V. P. Sharma – Chief Operating Officer and Mr. Kini – Senior Executive Director to discuss some of the recent events and results of the company.

We commence the call with result highlights of the quarter and nine months ended December 31, 2012. Our Gross Sales have shown an improvement of 24% for the quarter with an amount of Rs.762 crores. Our Net Sales has improved 24% at Rs.675 crores. Gross Revenue for nine months has grown by 20% at Rs.2,255 crores and net sales have grown by 19% at Rs.1,988 crores. EBITDA has degrown by 6% at Rs.127 crores and consolidated net profit for the quarter is 18 crores. EBITDA for the nine months is Rs.464 crores up 11% and consolidated net profit is Rs.160 crores up 20%. EBITDA margins for the quarter and nine months is 19% and 25% respectively.

Jayesh Doshi And just to add for the quarter we produced clinker which is around 1.1 MnT for the quarter with a growth of about 10% and cement sales volume was up 20% at 1.5 for the quarter and for nine months 4.3 million as compared to 3.9 million which was up by around 12% YoY. This is primarily on account of the two acquisitions, now volumes which are included as group Dalmia Bharat which we talk about, so just to brief you on that this is how the company has projected in terms of higher clinker and cement production and higher sales volume. Our EBITDA per tonne for the quarter is Rs.774 and net sales realization for the quarter is Rs.4291 and for the nine months NSR is Rs.4304 and EBITDA is 977. We can start with the Q&A Vaibhav.

Jayesh Doshi I mean I am sure that most of people would have got a substantial time to have a look at our results and would like to now ask questions and we can address it together.

Moderator Thank you very much sir, ladies and gentlemen we will now begin the question and answer session. We have a first question from Sonali Salgaonkar of Crisil. Please go ahead.

Sonali Salgaonkar Sir, just wanted to understand what are the drivers for the cement growth in the Southern region right now?

Jayesh Doshi As it's being driven across India the main driver of cement is always housing but Southern region also in the current year as well as the current quarter and coming year we are seeing huge demand in terms of the rapid transit system like metro in Chennai, Cochin and Bangalore and we have seen lot of announcements happening on the power plant which will continue this robust growth apart from just the housing.

Sonali Salgaonkar Sir what about Tamil Nadu as a state because last month there were reports that there is a slow down in cement volumes in Tamil Nadu? So, just wanted to understand how is the housing and infrastructure shaping up in Tamil Nadu?

Himmi Gupta Till last quarter the volumes were basically down due to monsoons, so this October – December is a period when monsoons hit TN and Kerala.

Sonali Salgaonkar Sir, my second question, what is your coal mix, is it 100% imported still or you are getting some linkage coal?

Himmi Gupta For the kiln it's 100% imported coal and for the CPP we are using lignite also, it is a blend.

Sonali Salgaonkar And what would be your mix of rail to road transportation and what in your sense is the effect of hike in diesel on the freight cost of your company?

Himmi Gupta For Dalmia, road is around 80% and rail is 20%. Hike in the diesel prices has affected us.

Jayesh Doshi But which has been substantially controlled because the diesel price hike is well around 14%, however the cost increase has been around 4% odd on QoQ basis.

Sonali Salgaonkar For OCL, your coal mix will be 100% linkage right?

Himmi Gupta No, for OCL it is like 40% is the linkage coal then around 20% we buy the open coal from Meghalaya and the balance is the imported coal.

Sonali Salgaonkar Railroad mix for OCL would be?

Himmi Gupta For OCL rail is around 55% .

Jayesh Doshi It's around 50-50.

Sonali Salgaonkar How do you see the demand shaping up in the Eastern region?

Jayesh Doshi In the Eastern region we strongly believe that the demand will be robust, the way Bihar, Jharkhand are growing and Eastern region (including North East) we certainly expect the demand to be robust there is no doubt about it because we are seeing lot of power projects, railway metros coming about Rs.270 bn and real estate of course is growing and so are the port projects, so I don't see demand really coming off so much.

Sonali Salgaonkar Sir, what is your sense of the demand in 2012-2013 the year-on-year cement growth, for PAN India I am asking?

Jayesh Doshi PAN India currently it is growing at around 6% I think it should end somewhere between 7% to 8%.

Moderator Thank you. Our next question is from Jinesh Gandhi of Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi Can you share realizations and EBITDA per tonne for Dalmia Southern operation excluding the merger which has happened?

Himmi Gupta Yes, EBITDA per tonne for Dalmia is around 860 and NSR is 4200.

Jinesh Gandhi Can you give some flavor about how your acquisitions are doing at EBITDA level and when do you expect them to breakeven at PAT level?

Jayesh Doshi I think to answer that question I would like to pull it that we have just now got into complete consolidation in terms of Adhunik and Calcom and our guys are operating it. We are pretty happy with the plant capability and right now the margins are on the lower side as compared to Dalmia's average but which we can see a huge effect coming quarter-on-quarter. The integration is currently happening it's just about 100 days for Adhunik acquisition and I would say integration and our technical team is working on the cost parameters and we expect quarter-on-quarter improvement happening. As you can see with every acquisition the real value is around at least four to five quarters to come in.

Jinesh Gandhi Sure, but pre synergies would they be loss making at PAT level?

Jayesh Doshi PAT level yes.

Jinesh Gandhi At EBITDA they would be, EBITDA Calcom would be loss making?

Jayesh Doshi EBITDA Calcom is slightly loss, Adhunik is doing well.

Jinesh Gandhi My second question pertains to your capacity addition plans can you just update on how they are progressing?

Himmi Gupta Total project cost of the Belgaum is 1340 crores and till date we have spent Rs.275 crores so our progress is as per the planned schedule, we expect to commission this plant by the first half of financial year '15. And in Calcom there is a grinding unit which is coming up 0.8 million tonnes, it's a Brownfield expansion and a clinker unit of one million tonne is also under construction. Total project cost is around 500 crore

Jinesh Gandhi Sure and that's also expected in first half FY15?

Himmi Gupta Yes first half, see grinding will come early, so clinker might take some time. There is a Greenfield project going on at Medinipur West Bengal of 1.35 million tonnes.

Jayesh Doshi Total project cost of Medinipur is Rs. 420 cr and ~75 cr spent till date on the project

Moderator Thank you very much. Our next question is from Girish Choudhary of Spark Capital. Please go ahead.

Girish Choudhary Yes, post this consolidation of Adhunik and Calcom what is the total debt at the company level?

Himmi Gupta 3400 crores.

Girish Choudhary This includes even Calcom?

Himmi Gupta Yes.

Girish Choudhary Can you give the numbers for Calcom?

Himmi Gupta Calcom debt is 500 crores and Adhunik is also around 500 crores, net debt in the books is 2600 crores.

Moderator Thank you. Our next question is from Rajesh Kumar Ravi of Karvy Stock Broking. Please go ahead.

Rajesh Kumar Would you share the industry demand growth for the various states you operate in?

Jayesh Doshi The demand growth Tamil Nadu for the nine months was about 10%, Kerala 12, Karnataka 13%. Andhra was better only (-1%) and overall South was around 8%.

Rajesh Kumar And how were the Eastern markets where in OCL operates?

Jayesh Doshi East gives you about 7%.

Rajesh Kumar 7% this is including which all states.

Himmi Gupta Including Odisha, West Bengal, Jharkhand, Bihar, and Chhattisgarh.

Rajesh Kumar Now coming back to the current quarter like after the December quarter how has been the situation in the January and February first half like February so far, has there been any slowdown in demand in the Southern states in terms of demand and pricing?

Jayesh Doshi Not at all.

Rajesh Kumar So have you seen prices recovering in the month of January in the Southern markets?

Jayesh Doshi Not recovering I think more or less it's stable here, probably the push will come in February – March.

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

Jinesh Gandhi How is the pricing environment now in the South?

Vipin Agarwal See pricing environment in South continues to be challenging. January month was Pongal month in Tamil Nadu which we did see a lot of decline in demand and the first half was pre-Pongal and post-Pongal normally when the market rate goes up this time demand was slow so the prices have been under pressure, so both in Andhra and Tamil Nadu the price situation is not very, very stable and on the upside but we are expecting that possibly mid-February, there should be some cost correction because some inflation is happening but as of now the situation is fluid.

Rajesh Kumar So would current realizations be lower than third quarter average?

Vipin Agarwal No I don't think, as of now realization is concerned there is parity to Q3 but we were expecting the realizations to go up.

Rajesh Kumar Second question pertains to our Calcom and Adhunik stake acquisitions, Calcom we are now at about 57% and Adhunik at 77%, what's the timeline for us acquiring balance stake in Adhunik and balance of taking total stake to 76 in Calcom?

Jayesh Doshi Does it matter now since we are consolidating.

Rajesh Kumar No in terms of cash flows?

Jayesh Doshi Cash flows, we have earmarked for it so it would not be a major thing but over a period of next 6 months to 12 months, probably we will acquire it.

Rajesh Kumar And are there any major milestones depending on which I mean there are stake acquisitions happening?

Jayesh Doshi Yes, some of the milestones are there definitely that's why these things are pending as an acquisition. There are some milestones which need to be achieved and I am sure that we will be getting those clearances because that onus is on the erstwhile promoters which they are performing.

Moderator We have a question from Srihari Seshadri of Sundaram Mutual Fund. Please go ahead.

Srihari Seshadri I would like to know the realization Q-o-Q how has it changed as well as the EBITDA per tonne sir?

Himmi Gupta Realization in the quarter two was 4300 per tonne.

Jayesh Doshi Realization is more or less stable, 4300 A against 4290.

Srihari Seshadri Okay and EBITDA per tonne sir?

Himmi Gupta EBITDA per tonne for the quarter for Q2 was Rs.1250 and EBITDA per tonne for Q3 is 774.

Srihari Seshadri I have 1087 in the Q2 presentation.

Himmi Gupta Apologies, That is 1087.

Srihari Seshadri So, from 1087 we have moved to 774 sir?

Jayesh Doshi Yes.

Srihari Seshadri And where has the impact come from sir, can you define which state has impacted us more in terms of the EBITDA per tonne?

Jayesh Doshi More than the states it is basically a temporary issue where some of the power which was very costly which we purchased at Kadapa, in Andhra Pradesh and there was a little bit of temporary mismatch in the availability of fly ash which I think will be sorted out. So you will see at least EBITDA per tonne now improving from what was and plus also the inclusion of the two companies which we have now consolidated.

Srihari Seshadri So, why were we not effected in March by the drop in price versus in AP comparison, I think there was a significant drop.

Jayesh Doshi No, in fact if you see that's the reason why our market share in AP we took a conscious decision of actually supplying less and therefore our EBITDA for the company as a whole dropped by 20% QoQ. This is very conscious decision to get out and supply lower in the Andhra Pradesh region.

Srihari Seshadri Have things changed in AP sir, I mean is it improving anything different or is it a status quo?

Jayesh Doshi I think it is status quo, people are waiting and watching, what's going to happen in the political scenario.

Moderator Thank you. Our next question is from Pankaj Tibrewal of Kotak. Please go ahead.

Pankaj Tibrewal Just wanted to know the interest cost was quite high for this quarter, even on an annual and a quarterly run rate, can you give us some sense on what could be the interest, what we should look forward going?

Jayesh Doshi I think you can look forward to a total interest cost on the same as the debt of which we said total gross debt of 3400 crores.

Jayesh Doshi And if you see the interest cost per se, average is about 9-10%.

Pankaj Tibrewal Yes, because this run rate, I am just seeing the press release.

Jayesh Doshi No what happens is the borrowings at Calcom and Adhunik have also now got into consolidation, which are at higher cost and in fact Vipin and our team and we are all working towards to refine them.

Pankaj Tibrewal So, from September to December the interest cost has almost doubled?

Jayesh Doshi Yes, that's because of inclusion of Adhunik and Calcom, they have high cost debt which are already being renegotiated, the impact will come now over the next six months.

Himmi Gupta And moreover in the previous quarter Adhunik's balance sheets numbers were there but in the P&L there was no effect because the numbers were consolidated in the P&L just for two days.

Jayesh Doshi That's the thing, basically the refining has already happened, the impact will come now. Our endeavor would be to ensure that overall cost of interest would not be higher than 10%.

Pankaj Tibrewal The reason I was asking was when I look at the capital employed on a quarter-on-quarter basis, the capital employed has just moved by about 400 odd crores but the interest cost per se on a quarter-on-quarter has moved by 40 crores so somehow I am not able to relate that?

Jayesh Doshi That's because of accounting together the entire three companies. There is a capital employed we already being seeing which has already been acquired 50%, which was already deployed right when we took on the 50%.

Pankaj Tibrewal So the interest cost is expense in this quarter you are saying?

Jayesh Doshi Yes.

Pankaj Tibrewal So 80 crores is the run rate which we should look forward or you think that that has a downside coming because on an annualized basis if 2600 crores of net debt is there that means 260 crores of interest expense should be there on an average?

Jayesh Doshi Absolutely.

Moderator Thank you. Our next question is from Sandeep Hemraj of PCS Securities. Please go ahead.

Sandeep Hemraj Sir, what is the lead distance?

Himmi Gupta 300 kilometers.

Jayesh Doshi Where?

Sandeep Hemraj In South.

Jayesh Doshi About 300 kilometers.

Sandeep Hemraj On Q-on-Q basis has this increased?

Himmi Gupta There might be a slight variation.

Jayesh Doshi There are some changes and more or less our endeavor is within 300 to 340 kilometers depends on which market we would like to serve, we definitely would not go to 400 and 500 kilometers, otherwise you never make money.

Sandeep Hemraj Sir, could you give me a split up of the volumes of all the three companies, Dalmia, Adhunik, and Calcom?

Jayesh Doshi Yes, we will send it to you, we will write a mail. It's not a problem.

Moderator Thank you. Our next question is from Rajesh Kumar Ravi of Karvy Stock Broking. Please go ahead.

Rajesh Kumar Ravi Would you give us a sense on the new capacities that are expected to be added in the southern market or overall that you estimate?

Jayesh Doshi See for the year 10 million tonnes have been added in the Southern market for the first nine months, at least commissioned, when I say added it means commissioned and I think we expect at least another four to five million tonnes to be added probably before March and depends, kiln will start for depreciation but we don't know production will come or not. See for us what is additional capacities when actual cement comes in the market, it's not like what you said addition, it's commissioning, we don't mind if we get cement after three months because the capacity addition will be after three months.

Rajesh Kumar Ravi And how about for next two years any capacities which are in pipeline, which could get commissioned in FY14?

Jayesh Doshi I think about 10 to 12 million tonnes might commission in FY14 including South (4 MnT) and East (7 MnT) , I don't know more than that, you should talk to KHD and FL Smith …. they will be in a better position to tell you.

Rajesh Kumar Ravi Right so this is like including Maharashtra if I understand right your concept for the Southern market?

Jayesh Doshi I am talking about our market, not Maharashtra.

Moderator Thank you very much. Ladies and gentlemen due to time constraints that was our last question. I would now like to hand over the floor back to Mr. Vaibhav Agarwal over to you sir.

Vaibhav Agarwal Thank you Inba. On behalf of PhillipCapital India Private Limited I thank the management of Dalmia Bharat Limited for the opportunity of the call and also thanking all the participants for joining for the call.

Jayesh Doshi Thank you, very much appreciate Vaibhav taking the call for us and appreciate all the participants for joining and we are always available for any detailed questionnaires. Himmi from my team and Pavleen, we are all available for any details whatever you desire.

Vaibhav Agarwal Thank you very much, thanks.

Moderator Thank you very much sir. Ladies and gentlemen on behalf of PhillipCapital India Private Limited that concludes this conference.