"Dalmia Bharat Limited Q3FY22 Earnings Conference Call"

January 28, 2022

MANAGEMENT: **MR. PUNEET DALMIA – MD, DALMIA BHARAT LIMITED**
MR. MAHENDRA SINGHI – MD & CEO, DALMIA BHARAT LIMITED
MR. DHARMENDRA TUTEJA – CFO, DALMIA BHARAT LIMITED
MR. RAJIV BANSAL – GROUP HEAD (STRATEGY & TRANSFORMATION)
MS. ADITI MITTAL- HEAD INVESTOR RELATIONS

Moderator: Ladies and gentlemen good day and welcome to the Earnings Conference Call of Dalmia Bharat Limited for the Quarter ended 31st December 2021.

Please note that this conference call will be for 60 minutes. And for the duration of this conference all participant lines will be in the listen-only mode. This conference call is being recorded and the transcript for the same maybe put up on the website of the Company. After the Management discussion, there will be an opportunity for you to ask questions. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone.

Before I hand the conference over to the Management, I would like to remind you that certain statements made during the course of this call, may not be based on historical information or facts and maybe forward-looking statements. The forward-looking statements are based on expectations and projection and may involve number of risks and uncertainties and other factors that could cause actual results, opportunities and growth potential to differ materially from those suggested by such statements.

On the call we have with us:

Mr. Puneet Dalmia – MD Dalmia Bharat Limited

Mr. Mahendra Singhi – MD & CEO Dalmia Cement Bharat Limited

Mr. Dharmendra Tuteja – CFO Dalmia Bharat Limited,

Mr. Rajiv Bansal – Group Head, Strategy and Transformation and the other Management of the Company.

I would now like to hand the conference over to Ms. Aditi Mittal, Head Investor Relations. Thank you. And over to you Ma'am.

Aditi Mittal: Good morning, everyone. Wish you all a very Happy New Year and a very warm welcome to Q3 Earnings Call of Dalmia Bharat Limited. Hope you all had a chance to refer the results and the earnings presentation this as we speak can also be downloaded from our website under the investor section.

Without taking much time from here I will hand over the call to Mr. Dalmia for his opening remarks. Over to you.

Puneet Dalmia: Good morning, everyone. It gives me great pleasure to welcome all of you to the Q3 Earnings Call of Dalmia Bharat Limited. Warm greetings of the New Year. And we sincerely hope that you and your family are safe, healthy and vaccinated.

Last quarter has been a tough one for the industry, as there was muted demand on one side and on the other side, there was a pressure on costs. Moreover, the last two to three quarters, we have witnessed an unprecedented increase in the energy and commodity prices and whose impact has finally started to reflect in the earnings of the industry. If we do some broad cost comparisons of our key inputs, the consumption rate of pet coke has almost doubled from $83 per ton in Q3 of FY21 to $164 per ton in Q3 of FY22. And likewise, if we see the coal consumption rate, it has gone up from $82 to $127 per ton over the same period, which is an increase of 55% in coal rates in a year's time.

As a Company, while we were able to mitigate some impact through our system's flexible operating structure and real-time changing the mix of fuel, yet the fuel cost has heavily impacted us. And likewise, if we see the entire industry's margins have felt the real heat of the spike in fuel costs.

Cement being a very localized and regional play, each region was seen performing very differently. And we witnessed that the compression in demand was maximum in East followed by South. November was an absolute washout month, and varied factors such as monsoon and sand mining issues were the key downward drivers for cement demand in East and in the South. And in the South, it was unseasonal and extended monsoons, which had adverse impact on the demand. Having said that, December saw rebound and growth and the trend continues this far in the month of January. Mr. Singhi will later take you through the numbers and some broad trends in more detail.

Beyond the quarterly blip, the outlook for the industry remains intact and is positive. Capital expenditure remains one of the key pivots with the Government if they are able to stoke up growth amidst the pandemic. Despite the second wave impacting beginning of the current financial year, in H1 of financial year 22 the Government was still able to meet 41% of its CAPEX target from the overall budgetary allocation of Rs. 5.54 lakh crore. From the upcoming budget, we expect that the absolute allocation towards the development CAPEX should only get higher, which in turn would have a multiplier impact on the economy, and particularly the building material sector.

While private sector investments are still a far cry, the recent deleveraging of the balance sheets of Indian corporates and the continued fiscal and monetary support by the Government and the central bank pose a strong case for uptick in CAPEX from the private sector.

We remain excited about the opportunity that lies ahead. And we are diligently pursuing our capacity expansion initiatives to be able to meaningfully contribute to the increased cement demand. Further, in line with our vision to build a PAN India cement Company, we have diversified our manufacturing presence into the western part of the country with the commercialization of our Murli plant in January 2022.

We are not only making investments to add capacity, but also planning and executing for improving the operating efficiency and sustainability quotient of our business. Initiatives that would mitigate the impact of external volatilities and contingencies are an area of focus for us. And as a team, we are working on further strengthening the foundation of our Company. We have accordingly laid out specific short-term target for enhancing the renewable power percentage, the green fuel consumption and the blended cement percentage in the Company.

During the quarter, we also actioned upon our commitment to the shareholders and have completed the divestment of the retail venture. The Hippo Stores through a slump sale. Part consideration of Rs. 35 crore has been received upfront. And the rest of the details on the same will be shared by Dharmendra later during the call.

I thank you all once again for your valuable inputs and constructive feedback. We will continue to seek your guidance, support and feedback from time-to-time. I would like to hand over the call to Mr. Singhi for an update on the quarterly performance. Thank you.

Mahendra Singhi: Happy morning, hope all is well at your end and that your families are safe and healthy. As Puneetji has already mentioned Q3 has come in as a bit of surprise for us with face volume that is short of expeditions. On a YoY basis, there has been a volume degrowth of 2.5% in Q3 and total volume for the quarter is 5.7 million ton. While we say that the last 10 to 15 days of December saw a visible growth in demand and which has sustained during the month of January this far. While the capacity utilization for quarter is average 69%, for Q3 for the month of December, it rose to 83% which shows that demand is going up.

During the last quarter the weakness was primarily driven by weak demand scenario in East and to some extent in South. Our volumes in East contracted by close to 12% on YoY basis. The silver lining however was that sequentially there is an almost 23% increase in the sales volume. On other key market South too witness extended monsoon but in spite of that, our teams were able to continue their journey of increased market share. And we were able to deliver a volume growth of almost 2% to 3% on YoY basis. Seeing the demand trend of second half of December, we believe demand to stay strong as usual in Q4. And we may witness a robust Q4 same as last year.

For all India basis we expect cement demand to grow around 6% to 7%. Having said that, on full year basis, our demand growth could get content to mid to high single digits as against the earlier anticipated 11% to 12% and this is primarily owing to unexpected demand sluggishness of Q3.

In terms of pricing, the prices have shown strength on YoY basis. As we exited the month of December due to the demand pick up which observed in last two weeks of December and the first three weeks of January the existing pipeline in East looked a shade better than the December average price. And we hope that as demand scenarios improve from here, the same should follow in other regions as well. Also as is seen each year, the increase in demand should lend some strength to the prices across regions. The expected support in prices should be driven not only by a better demand scenario but also due to pressures of high costs

If we speak of ourselves as a Company, the trade percentage for the quarter was 59%, which is again below our desired level and going forward, we will be improving it. As we have been working on increasing share of premium product in a sustained manner we are happy to share that the share of DSP as a percentage of trade sale stood at 21% during the quarter as compared to 18% in the same quarter last year.

On the cost front, this quarter as Puneetji has highlighted in a major way, we have seen that the inflation in the energy and commodity prices has finally started to reflect the cost structure of the Company. The lag as we all know was due to the low-cost opening inventory, which has been adjusted across most companies. In line if you see on sequential basis, the raw material cost has remained flat and is in fact, slightly better due to a very moderate positive change in flat cost.

The real dent has been due to the high fuel cost. The average conversion rate of petcoke and coal, which makes up almost 75% of our fuel mix rose to almost $160 per ton. This is as against an approximate number of $130 during Q2. Since the purchase price of fuel was higher at closer to almost $200 in Q3, the Q4 consumption rate could inch up slightly more due to the availability of high-cost opening stock for Q4

The freight cost during the quarter has increased modestly due to slight increase in the lead distance. Our lead distance during the quarter had increased to 298 kilometer as against 285 kilometer in the previous quarter. On YoY basis, while the diesel cost increased to a staggering 21% to Rs. 94 per liter in the current quarter, our efficiency measures helped to contain the adverse impact in logistic costs.

On an overall basis, the increased cost as seen in Q3 will probably sustain and remain at these levels for the rest of the FY22, like the Q4 due to some of the high cost opening inventory before they eventually start to taper down.

Friends on growth part we have spent close to Rs. 1350 crores in first nine months of the year. And considering the current plan a further outlay of around Rs. 800 crore is expected in Q4. While the absolute expenditure number has fallen short of our estimations we continue to be on track to complete that capacity announced up to 48.5 million ton by March ‘24.

We are fully confident of completing plant commissioning as per our current plans which has been shared with all of you. Just to detail out the capacity growth plans a little more for you, we are expecting that 4 million ton of debottlenecking should get completed by March ‘23. And we could expect the grinding capacity to reach 40 million ton by June ‘23.

That initial work has already started for Bokaro and one of the Tamil Nadu grinding unit. We are shortly finalizing the Bihar granting unit site location and would share shortly with you in our next call. Like we had mentioned in the last call that mill order has been placed for all four locations and we are on track to meet our March ’24 timeline.

As Puneet ji has highlighted about our entry to West, we have commercialized a 2.9 million plant of Murli Industries in Maharashtra on 15th January, which makes and marks the beginning of multifunction capacity invest, and it fits strategically in our long-term vision of building a PAN India Company. The plant is supported by a clicker line of 1.98 billion ton and has captive power of 50 MW. The total installed grinding capacity of the Company stands at 35.9 million tons and clinker at 18.88 million tons. We are making all efforts also to augment the limestone reserve for the plant in Murli area.

Continuing on limestone, I am delighted to share with you that we have won a limestone block auction in Rajasthan area, that's in Jhunjhunu district of Rajasthan, which is closer to NCR and part of Rajasthan. This block is located exactly in Nawalgarh area and expected to have a minable reserve of 160 million ton as per the Government records.

Friends, we at Dalmia Bharat always take pride about being the Company with one of the lowest carbon footprints in the global cement world. During the quarter, our CO2 emissions have again come down further to 488 kg per ton as against 492 kg per ton for FY21. To carry forward our journey and to put more focus on sustainability and ESG we have during the quarter appointed Dr. Arvind Bodhankar as our Head of ESG. He will also be playing a dual role of Chief Risk Officer and would help the organization assess, strategize and mitigate against significant organization risk also.

With this, I would now like to hand over the call to our CFO, Mr. Dharmendra Tuteja. And thanks friends for your patient hearing.

Dharmendra Tuteja: Good morning, everyone. In the interest of time, I will quickly jump into the key financial updates.

The moderate increase in absolute other expenses on YoY and QoQ business is due to the increase in travel expenses due to ease in travel restrictions and also in the increase in selling and advertising expenditure. The packing expenses have also gone up on both YoY and QoQ basis. The packing cost saw a sharp jump due to the increase in the input cost where the PP granule price escalated by almost 40% from average Rs. 90 per kg to about Rs. 124 kg on YoY basis.

On the balance sheet side, as a priority set out in our capital allocation framework we will continue to maintain a razor-sharp focus on the health of the balance sheet and the various return ratios. During the quarter, we have availed a gross debt of close to Rs. 538 crores which is net of prepayment of Rs. 856 crores. And the closing debt as on 31st December stands at Rs. 3647 crores. The net debt to EBITDA as on 31st December was (-0.64).

Also, in line with our capital allocation framework and our vision to build a pure play cement Company, the sale of Hippo Store has been concluded on 31st December on a growing concern by way of slump sale to Hippo Store Technology Private Limited, which is a promoter group Company and this is for a consideration of Rs. 155 crores. The come Company has received Rs. 35 crores and balance has been received in the form of NCDs carrying coupon rate of 10% per annum. And these are redeemable after two years. Overall pre-tax net gain on Hippo Stores sale is Rs. 6 crores and is recognized under discontinuing operations in financial results.

During the quarter, we have not sold any further shares of IEX. But, as has been asked by many, we would like to reiterate that we are committed to building a pure play, PAN India cement Company and we will continue to revisit our investment in IEX from time-to-time.

In this quarter, we have accrued Rs. 44 crore of incentives, which takes the nine month accrual number to about Rs. 180 crores. The collection during the quarter has been Rs. 20 crore and the total collection for nine months FY22 has been close to Rs. 160 crores.

With this, I now open the floor for question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Indrajit from CLSA. Please go ahead.

Indrajit: Couple of questions from my side, first can you throw some more light on demand. How do you see demand panning out in 4th Quarter? You mentioned that it is improving. But is it just on a QoQ basis or do you think after a blockbuster quarter last year we could see some growth on YoY basis as well, for the industry not for us, but for the industry?

Mahendra Singhi: Yes, you are right this would be better on YoY basis also and one of the reason maybe that the pent-up demand of Q3 may also come up in Q4 and that's why it looks like that the demand should be better in this quarter YoY basis also.

Indrajit: Secondly on the Rajasthan block any initial thoughts when we can start producing from that block or what is the kind of timeline we are looking at? Will it be for part of that your 48 to 62 million ton or will it be beyond that in terms of production and capacity.

Mahendra Singhi: One, I would say that we have been able to won this block just six days back and now all initial work has to start. Second this would come beyond 60 million ton because the major task would be to acquire the land and then to start the various activities. So, this will be beyond 60 million ton.

Indrajit: Just two housekeeping questions, can you please repeat the nine month CAPEX numbers and the cement clinker ratio for the first nine months?

Mahendra Singhi: CAPEX number has 1300.

Aditi Mittal: And CC ratio for the first nine months is 1.62.

Moderator: Thank you. The next question is from the line of Girish Choudhary from Spark Capital Advisors. Please go ahead.

Girish Choudhary: Firstly on the Eastern Region pricing just wanted your thoughts; the pricing continues to be very weak. And if I look at the difference in East pricing versus some of the other regions this has now widened so, just your thoughts from a very medium term perspective given your leadership in the region.

Mahendra Singhi: Yes, you might be aware that East is having one of the lowest per capita consumption compared to other regions of the country. And it is expected that in midterm the demand should go up in a big way and which should lead to the better prices. Of course, presently the prices of East are lower than Southern India or Northern India. And we are hopeful that with the increased demand and of course the increase in the cost would also help the organization to have better prices.

Girish Choudhary: But do you expect a strong catch up in the East region in the medium to let's say over the next year or so?

Mahendra Singhi: This would mainly depend on the demand scenario, if demand continues to remain better than yes so we can expect better prices like what we have seen in the month of January also that with the improved demand, the prices have started going better and better.

Girish Choudhary: Secondly, again, good to see the commercial production of Murli Industries asset. Again, if you could share your outlook on what kind of ramp up we can expect in FY23. The reason is that recently we also saw Birla Corp commissioning a pretty large client in the same market 4 million ton and your capacity is also close to 3 million ton. So, 7 million new capacity in the same market. So, what kind of ramp-up we can expect?

Mahendra Singhi: We can expect surely more than 60% capacity utilization for FY23, we have already set up our good marketing network and that will help us. And to some extent, also, our presence was there in Maharashtra on that account also we are getting good response in the market. So, we expect that minimum 60% capacity utilization would be there in FY23.

Girish Choudhary: Just a follow up on this finally, is the cost structure of this asset higher or lower than the Company average? What is the sense on the cost structure?

Mahendra Singhi: In few months time it will be almost equivalent to the Company's average variable cost.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: My question to Puneet sir and Rajivji, so basically slightly a typical question, if you had to start all over again and if you had the option of choosing any two regions you were free to choose any two regions which two regions would you have your presence in, considering everything?

Puneet Dalmia: I think personally, each region has its pros and cons. And I cannot take short term view, there are times when South has performed really well as compared to North, because prices have been very good in Tamil Nadu and Kerala, there have been times when East has done really well. There have been times when Gujarat has done really well and it has not done well also.

So, I think, if I take a long term view, I personally don't see that there is huge disparity between regional performances. There could be quarter-to-quarter and maybe some years, one or two years could be here and there. But if I take a five-year average or a 10 year average, there is not much disparity between regions.

I think what I like is in terms of our footprint I think we have a great footprint in deep South, where there is continued demand growth and a very good consolidation in the market in Tamil Nadu and Kerala. Andhra Telangana remains a weak market and that's an area where we feel it will take some time to sort out the industry structure. However, East India, we really like as a bet in long term because it has the lowest per capita consumption and great mineral resources in the country. And a lot of private CAPEX is going to happen, given how well the steel sector and the coal sector is doing. So, I personally really like the Eastern markets.

We also like Northeast a lot because even though it's a small market, it's a segregated region and a place where we have a very strong brand. I think even in Central and North India, we have, we had aspirations to enter, we did bid for Binani, we liked that market as well. But I think it's difficult for me to choose one market over another. All I can say is that the more diversified you are, the more you can withstand the volatility that comes year-on-year or sometimes quarter-on-quarter.

So, diversification helps you manage volatility. But overall, if I look at this a sectoral view, I think the fortunes of this industry is dependent upon the housing and infrastructure built out in this country. And my personal view is that we have a very strong demand environment likely in the coming decade. And also, the entry barriers in this business are rising. It is difficult to build new plants, it is difficult to buy land, and it is also difficult to build distribution and your brand. So, my personal view is entry barriers are rising and it's never been a better time to be in this sector.

So, overall, I don't think I can answer your question that I will pick one region over another, because long term, every region performs reasonably well except I would say, Andhra is perhaps the most fragmented market and perhaps structurally least attractive. And also I think Himachal Pradesh is one where I think the cost structure is really high because it is locked up in the hills and all the demand is in the plains. So, apart from Himachal and Andhra Pradesh, I think all regions have their own pros and cons and over a period of time they normalize. So, I think it's difficult for me to answer that question in an academic manner. And since we have a PAN India play, aspiration we like the idea of diversification. And I think we are quite bullish about the fact that structurally this industry is heading in a good direction.

Swagato Ghosh: And one follow up to that is the Eastern market specifically, can you or some of the other market leaders drive the pace of consolidation a bit faster so that the market reaches some profitability level and attractive point faster?

Puneet Dalmia: Look, I will tell you, I think, already about Top 5 players control 80% to 85% of the capacity in this region. So, it is already a fairly consolidated market. My view is that if you look at even the announced plans of the most players, most players or serious players and large players are adding capacity in this region. So, everybody sees this as a long term very attractive market otherwise they would not add capacity.

So, my personal view is the degree of consolidation is already pretty good. And I don't expect further consolidation in this region in the short term. But the real question is, how quickly can the demand come up? And regarding prices, I think as demand grows, pricing should stabilize that's our view.

Swagato Ghosh: And one last question from my side on the Murli asset, there was a bit of an issue with the limestone so when we are talking about ramping up 60% capacity etc. so, are we sourcing extra externally or the reserves we have is sufficient?

Mahendra Singhi: We have sufficient reserves, we will be able to ramp up the capacity utilization also and we are quite confident that in time to come even, we may go for adding up the capacity also.

Moderator: Thank you. The next question is from the line of Pinakin from JP Morgan. Please go ahead.

Pinakin: My first question is just trying to understand in your view given the Dalmia cement is a sizable player both in Eastern India and Southern India, and you mentioned that Eastern India is already fairly consolidated. But even keeping the last quarter aside, Eastern India's pricing has been relatively been much more weaker than Southern India, which on paper has a higher degree of under utilization. So, what in your view differs between South and East or what would need to change in East to have a similarly, upward moving pricing environment?

Mahendra Singhi: I would say the major driver for this would be a continuous increase and sustained demand. What has happened in East many times is because of the cyclone or unseasonal rain or the sand mining problem etc, there has been the disturbances on account of which prices have got stabilized. But otherwise, to us it looks like because you are fully aware that all major players they have good presence as well they have also they have also gone for capacity expansion in this area, which means that each and every player looks at the better time is East. So, accordingly one of the major area for which the prices can remain stable is the good demand.

Rajiv Bansal: I think, catching on to what Puneet and Singhiji has said in the previous answers. See we are very bullish on East, East has one of the lowest per capita cement consumption in the country. And a lot of economic activity happening there by the Government, there is a lot of focus on increasing spent on infrastructure in those states. And given that we have a very large presence there, we also see that competition is increasingly increasing their capacity there. The fact that everybody is getting to East, means that East definitely has a huge potential. And we being there and having a larger exposure I think puts us in a good place in the medium to long term.

As companies add capacity there initially you see price volatility as everybody is trying to increase their utilization initially the price volatility will continue, but I think over the next few quarters, you will see that the price starts stabilizing in East, because most of them would have ramped up their capacity to a certain level, and then you will see with the increasing demand the price starts going up.

So, I think if I look at from the next one-year perspective, you should see that demand growing in East and the price stabilizing as the capacity gets ramped up. So, I think from a medium-term perspective, I am personally very bullish on the Eastern market, given the economic conditions there.

Pinakin: My second question is if I take a step back and I look at the last five quarters before the December quarter, both Dalmia Cement and the industry had profitability record high EBITDA per ton. Now, at this point of time, given what the announcements are from Dalmia, Shri Ultratech, ACC, Ambuja and others, very clearly, the next three years would have capacity addition far in excess of what the last three years were. Now demand would grow, but is it fair to say that barring a commodity price, coal price collapse, we are unlikely to see a repeat of the profitability that we saw in the calendar year 2021, for most quarters?

Mahendra Singhi: I would say one of the major dent in this quarter has been the energy cost. So, once the energy cost gets stabilized of the previous period, then I think the EBITDA can be as good as what it was earlier, because we do expect better demand and stabilized prices. The major change which has come in is about the high cost of coal, petcoke, domestic coal everything.

Puneet Dalmia: I think there is obviously going to be a larger capacity addition compared to the last three years. But I also see an increase in demand. And personally, my sense is that if input price rises, so suddenly, for the entire industry typically a few percentage points rise can get absorbed, but over a period of time if like there is a 25% cost hike, input costs spike, then typically over a period of time it gets passed on.

So, my view is that given that the entry barriers are rising in this industry, I can't predict the next few quarters, but my sense is that I structurally believe that the profitability will reach the original levels of between Rs. 1200 to Rs. 1500 per ton of EBITDA. It may take a few quarters depending upon how the demand supply situation is but eventually I think it will get passed on is my sense.

Moderator: Thank you. The next question is from the line of Amit Morarka from Axis Capital. Please go ahead.

Amit Morarka: Just the discussion on the Eastern market so how you mentioned the Top 5 players control 80%. But my understanding is that the Top 5 players actually are all equally big, I mean, give or give 3% or 4% here and there and they all have ambitions which we can see in the expansion plans. So, that really the Top 5 80% is not helping I mean all of them are fighting with each other as you can see in the market.

So, when do we see a more like a normalization of that heightened competitive intensity in the market, like demand is a good thing East has good demand potential, but more or less it has turned out to be a pain rather than a boon given how everyone is looking to add in East. So, like when do we see this heightened competitive intensity go down among the Top 5 players themselves?

Puneet Dalmia: I think look this heightened competitive intensity gets magnified in a weak demand environment. If you look at the last quarter in East India, there was a demand compression of almost 17%. So, when there is such a steep demand compression, I think everybody I tried to sell a little bit more and you don't have perfect data. In November it was a complete washout month. So, my personal view is that this one quarter was a steep demand compression, coupled with a sudden spike in input costs, which was very steep.

We are already seeing that in the 4^{th} Quarter demand is coming back quite strongly. December was good, January is also good. In 4^{th} Quarter there is a little bit of seasonality as well, but the demand is coming back. Now I think my sense is as I said, I mean don't have a crystal ball in the future, but such large input price spikes typically get passed on unless the demand is, there is a huge demand shock. But if demand continues to grow normally, I think in a couple of quarters at best, it should get passed on, maybe earlier.

Amit Morarka: I appreciate the November point. But the thing is, in the last four or five years East has hardly seen any price hike. It's not just about one quarter. But it's all other regions, if you see like price points have all moved up and next two, three years also, we see a big pipeline of additions in East. So, the question comes more from there, like, demand is good, but then capacity supply is just kind of removing all the advantages that demand can bring in?

Puneet Dalmia: Yes, I think in the short term, what you are saying has been true. But I continue to believe that this is perhaps one of the most attractive regions in the country. And both the demand and the pricing growth will surprise us. And whether it will happen in one year, two years or three years is difficult for me to say. But my sense is that it's going to surprise us. And that's why at least we are investing, that's the bet we are making. Now time will only tell whether we are right or wrong. But we are quite confident about this region.

Amit Morarka: Like going ahead, like you have announced your expansions, which again are centered a lot on East but going ahead, would you look to do your next leg of expansions beyond East let's say the Northern limestone you have or some other regions?

Puneet Dalmia: Yes, I think we have already given a guidance that our aspiration is to be a PAN India Company. And we are looking at projects in other regions as well. But having said that, we are also investing in South so, we are putting up grinding units in Tamil Nadu and we are making significant investments there and also in the Western region, you know, we have invested in Murli. So, I think, we are investing in South and West as well in our current phase of expansion of 48.5 million ton. But we are looking at other regions as well. And our aspirations continue to remain more diversified across regions.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: First question is on the CAPEX. Now in the last quarter, we had a Capex guidance almost half from Rs. 4000 odd crores in FY22 to now closer to Rs. 2000 odd crore and at the same time, we are maintaining that none of our expansion timelines are being compromised. So, is it possible to share some more detail as to why these delays or lower CAPEX in this year. And also how do we see FY23 and 24 CAPEX now shaping up in the light of this delay. Do we still see around Rs. 3000 to Rs. 4000 per year or some spillover of this year.

Mahendra Singhi: Let me share that one, whatever say actions which we were to take to ensure that we are able to commission all our 48.5-million-ton capacity, that we have already taken in most of the areas. And on that account we have already invested Rs. 1350 crores and we are expecting maybe around Rs. 800 crore. I do accept that yes earlier we were thinking that we may be able to expand maybe around Rs. 2500 to Rs. 3000 crores. But looking to the situation, we have already decided that in next two quarters there will be like the Quarter 1 and Quarter 2 there will be more expenditure on expansions and that will take care. And I can again reassure that whatever actions we have taken, we will be able to complete all the expansions by March '24. One of the major step was to order for the grinding system so that has already been done. We have already started work on the two grinding units and two others they are in the process of finalizing So, this all augurs well for completing 48.5 by March '24.

Sumangal Nevatia: So, total Rs. 10000 odd crores CAPEX the remaining we will be spending in FY23 and 24. So, that gives us Rs. 4000 per year, is that the right understanding?

Mahendra Singhi: This is inclusive of the CAPEX which we are having on other areas on green power and other areas also and then maybe Aditi will be able to share a full detail about that CAPEX.

Rajiv Bansal: See, what has happened is the 48.5 million that we have committed to the street by FY24 is intact. All the investments which need to be done which are on critical path for achieving the capacity by FY24 is being made. But when we had initially given our estimate when we came with the whole CAPEX plan and in line with our PAN India vision, we had also allocated some money for looking at new regions, because as you know the land acquisition getting the raw material security, everything takes time. So, we had actually started on that. We have been looking at good assets, we had been looking at good locations and land bank and everything else in different regions. And that part has got delayed because we still are in the process of identifying the right assets, the right land.

And so what the expansion beyond 48, some part of money was supposed to spend in FY22. But some of that has got delayed by a couple of months here and there. But overall CAPEX plan, overall CAPEX expansion thing that we have spoken about remains intact. And we are on track to do 48.5 by FY24 by 60 odd million ton by FY25. So, those are on tract.

Sumangal Nevatia: Second question is the cost, you did share some details in the commentary, but just to confirm whether I have understood it correctly. So, we are seeing cost in March falling, but at the same time, you said that starting costs given the inventory etc. will be higher for this quarter. So, any sense on the overall average basis, do we see costs peeping out in 3rd Quarter and deflating from 4th Quarter or only on a run-rate basis, March will start deflating and actual you will see some benefit in 1Q only?

Mahendra Singhi: I would say that Q4 of this year, the cost part would almost remain the same, maybe a few rupees here and there based on the coal prices on local basis. But of course, from Q1 of FY23, it will surely see doubling down.

Sumangal Nevatia: And just one last clarification, given that we have won a virgin mine in Rajasthan, by which year can we actually see a capacity footprint in North? Is it fair to assume that it will be more towards the end of this decade or a bit sooner?

Mahendra Singhi: You know, like I said earlier that we had just won it and we are exploring all the possibilities and maybe in one or two quarters call will come out that what our action plan is.

Moderator: Thank you. Next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: So, my first question is on demand, if I look at your trade to non-trade ratio, clearly the impact this quarter not for you, but for the broader industry has been much more on trade. Whereas when we talk about these factors like rainfall, etc., they should logically impact both trade and non-trade equally. I am just trying to understand is there a bigger worry on trade demand? What is your thought on that are you still think that that trade is as robust as what it was and should come back, that would be my first question.

Mahendra Singhi: You know, what has happened is that even in that tough time also when there are rains and everything, so, wherever there is a structured work going on where there is a big real estate player or the road work is concerned, that goes on, but the interior house builders etc., their work it goes down. And more particularly, I talk of East, this time, in general also the rural demand has gone down, there has been a slowdown, even in rural economy also and on that account, also the trade percentage for us also and maybe for others also it has gone down. But then, to us, it looks like it was a temporary phenomenon. And in time to come, it will again go up and with the increased demand the trade percentage will go up.

Pulkit Patni: Sure, sir, because that's the worry because everybody's talking about rural continuing to be slow. So, we will have to just wait and watch how that plays out. So, my second question is this interesting exhibit that you have put on Slide #21, where you talk about how usage of green fuel has actually contributed to higher savings. Now structurally, obviously Dalmia is doing a lot more other companies are also focusing on more WHRS solar power, etc. Do you envisage that the saving that will come on account of this will actually contribute to EBITDA? Or will it result in prices probably increasing at a much slower pace? This is more like a structural thing over the next two to three years, how do you see this playing out contribution of green fuel and the savings there will it be a EBITDA contributor or probably prices increase is a lot lower.

Mahendra Singhi: Ultimately, it has to be EBITDA contributor, because the more we are able to use the green fuel then definitely that takes care of the volatility of the fuel prices. So, that would be the EBITDA contributor and efforts are on to ensure that yes, whatever work we have done, we should continue and we should announce that.

Rajiv Bansal: If I can just add, your question is that when we are seeing a steep increase in input prices, we are not able to pass it on to the customer. But when we see a savings, because of all the initiatives would it get passed on to the customer, right? And whether it will result in prices coming down? The fact is price is a combination of multiple factors demand, supply, input prices that let you to pass on the price competition. So, it's very difficult to answer the question saying that whether this will get passed on the customer will result in lower prices. The fact is, all the companies are working for a certain targeted profitability and such a targeted growth as such. So, I think we look to see how it plays out. But the idea is as Singhiji was saying how do we reduce the volatility in our input costs, in our fuel costs, in other input costs, by taking some of the initiatives, which will kind of ring-fencing me from this volatility out there, that's the whole idea, right. And it also helps in EBITDA, it also helps in being more predictable.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: My first question pertains to East, I do agree with a lot of comments you made, but my only concern is that if you go back in time 10 years back, the industry had the same commentary for Southern region also, you know when AP, Telangana they were seeing very strong growth and today like you highlighted, AP, Telangana is seeing the worst of demand.

The concern really is with such a strong demand growth in East capacity utilization upwards of 90% the pricing strength has just been missing for the last say, three to four years at least. So, though, obviously, East the per capita consumption is lower versus what South was in 2010 so, that does give some comfort on that demand potential. But purely from a pricing point of view what you think, should change or needs to change or is it the competition, which can then sustain for much longer, because everyone is in is in expansion mode. So, any comment you can make on how to think about pricing from here on for East?

Mahendra Singhi: I would say that demand will play a major role in stabilizing the prices, and like Puneetji has also said, and I also said that in time to come, the demand would shape up, that's the major driver for pricing, otherwise, whether you have the lower cost or higher cost, that may not mean much for the pricing settlement. And in other regions, also, we have seen that two to three years maybe of lower price, two to three years maybe a higher price. So, here since all players are also quite hopeful that East prices would go up with the demand. And that's why everybody has thought of putting up the capacity. So, that way we are quite hopeful and that's what I can say.

Ashish Jain: Also you kind of reiterated your target of going from 48 to 60 million tons by '25, given it would take, at least say 18 to 24 months for that. Can give some roadmap in terms of what we are planning for this 48 to 60 journey in terms of either region or our preparedness, or does it include fair bit of inorganic within that number, because otherwise in one year if I think from 48 to 60 looks like a humongous target.

Rajiv Bansal: See you are looking at from one year 48 to 60, no, that is not the way to look at it. See when we rolled out our CAPEX plans and we set it as part of capital allocation, we did say that 48.5 by FY24, 60 by FY25. So, a lot of that work is starting now, as I was telling to the question from Sumangal, a lot of line identification, lining up the supply chain, everything the work has to happen now. So, it is not that we are going to look at doing something only once we complete 48.5. The whole idea of rolling out a long-term CAPEX plan was to say that, as a Company, we are going to focus on these milestones, and to work on them, when you work backward from them you will start planning and tying up a lot of distance ahead of time. So, don't look at it as a one year, we have more than three years from now to build another 11 and a half million ton, that's how we would look at it.

Ashish Jain: Rajiv I get that, in fact that's precisely the reason I am saying given we would have already started working on that 48 to 60 journey, we should have a fair bit of idea in terms of which regions and all we are targeting. So, any thoughts you can share on that, because at least the floor level work would have started on that.

Rajiv Bansal: So, we did say when we said last time the 48 to 60, you will see some part of it in the existing region, and some part of it in the newer region. And that is what we are working on. At this point of time to really give more details would be premature. I think you will have to wait for us to be able to announce at the right time. But again, coming to point 60 million is something that we feel very confident about FY25, 48 o 60 part of it will be in the existing region and a part will be in a new region.

Ashish Jain: I just have a small follow up on that but safe to assume the way things stand today 40 to 60 is mostly organic, we are not building in any inorganic opportunity in that?

Rajiv Bansal: See inorganic you cannot plan three years ahead of time, suppose if you get something great at that point of time you will look at it.

Moderator: Thank you. Next question is from the line of Gaurav Jain from ICICI Mutual Fund. Please go ahead.

Gaurav Jain: I just had two questions. One is you mentioned the capacity utilization for the quarter end as on December it will be really helpful if you can also share the capacity utilization that we are currently operating at around. And second is while we understand the issues the industry faced in November etc. are there any visible green shoots that we are seeing and if yes, then from which segment are we seeing the same – IHB, Rural, Government etc. it would be helpful.

Mahendra Singhi: We would be operating in this quarter between 80% to 85%. And second question is that there are green shoots and because one in East sand mining issues they have been resolved by the Government, which has again favored the demand in Bihar, in West Bengal. And secondly, now in the Southern part of India also the Southern rains etc., those problems are not there. So, in both the areas now we do see that the demand should come up, which will help us in our capacity utilization also and good volume also.

Puneet Dalmia: I just want to add to that, while we went up above 80% I think around 85% in December, but I think in January we have commissioned Murli. So, on a blended basis, this number will come down and it is likely to be between 70% and 75%, because we can ramp up Murli to 80% suddenly, it is going to take time.

Gaurav Jain: So, basically on the existing capacities we are expected to close at kind of 80% to 85% for Q4 right?

Mahendra Singhi: Yes other than Murli yes.

Puneet Dalmia: But on a blended basis between 70% to 75%.

Moderator: Thank you. The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: One question on the part of the expansion. So, we had given our guidance and all that, but if I see your capacities currently in Tamil Nadu, they are operating at hardly around 55% to 56%. I am not taking the current utilization limit, it is impacted because of the rainfall. But even if I go to FY18, 17 all those periods, although utilizations have been hardly around 55% to 60% and at that time, Tamil Nadu was doing very well and on top of that, we are guiding that we are going to 2 odd million ton through the Greenfield unit. So, when your utilization levels at the current capacity are below like say 60% so, what incremental supplies we are going to add, is it more of like just a capacity or is the is it going to really flow to the volumes?

And even if I see your Northeast capacities like say almost like taking Adhunik under belt for last roughly around seven to eight years, it is operating at hardly around 55% odd utilization level. When utilization levels at the existing capacities are at such a low level and we are saying that we are going to add like around 20 odd million-ton capacity so, how they are going to float actually to the volumes path.

Mahendra Singhi: If you now look at our capacity utilization even for our Tamil Nadu plants or the Southern plants also they are doing 70% to 75% plus. And if we talk of last five to seven years, there was a different scenario of the demand in South, different capacities in South. But at the same time, if you look now, not only of Dalmia Cement a few other cement companies in South you will find that capacity utilization to some extent has gone up. We are quite hopeful that we should be able to capture good market share in the increasing demand. And that's why a conscious decision which is a for good market.

You are also aware that now since last one and half or two years, the demand in Andhra has started going up, the way the industrialization is happening in Tamil Nadu that is also sounding well for high demand. And it's just preparedness and I am sure this preparedness will help us in not only getting market share, but better profitability, also.

Kamlesh Bagmar: My comment was particular to the Tamil Nadu market only. And contrary to what Puneet’s comment was that Andhra and all those markets are not doing well. Your utilization levels at the Andhra and Karnataka market are far better than what Tamil Nadu is doing, my estimates suggest that they are upwards of like say 90% odd levels. So, I was only talking about your Tamil Nadu plants. So, there utilization levels are very low.

Mahendra Singhi: In our case now, the utilization level of Tamil Nadu plant is 70% plus. And that's why we are quite hopeful that with the new demand to come up in this area, which is both Tamil Nadu and Kerala we should have extra higher capacity, we should be able to give us good market share. And since you referred about last seven to eight years and that's why I said that the demand in Andhra has also gone up.

Kamlesh Bagmar: And lastly, we have been guiding such an elevated CAPEX which is very positive, but even on the short term, this question has been asked, but like if you see any other Company be it Ramco, Ultratech, they are delivering much higher than what they have been guiding on the CAPEX side. But in our case, we are like say that the plans are so high but ultimately on the ground, the activity is so low on the CAPEX side, at least on the CAPEX side. And the way your capacities are situated like in the used market particularly on the Orissa there is no clarity how much limestone reserves we have, how much useful life left, there are a lot of land acquisition issues are there. So, honestly, like on this capacity addition side, there has been very low confidence on how we are going to deliver on that part. And majority of our CAPEX is through debottlenecking or the grinding capacity addition, but honestly on the clinker side, there has been not a significant development in terms of our capacity additions.

Mahendra Singhi: First, let me assure you that we have sufficient limestone deposits, we have sufficient limestone lease in Orissa and that's why there is not concern and that's why we have gone ahead for putting up one of the big kiln in Orissa. Secondly I would say that whatever we had committed for FY22 we are on the mark, we have achieved 35.9-million-ton capacity. And third, as we are reassured that the work for 48.5 million ton is going ahead and accordingly the CAPEXs yes a 100 crores here and there that is varied because of certain circumstances, but at the same time, the work which was to be done for achieving this capacity, that's already there. And that's why in my view, there should not be any concern about capacity because whatever we have said earlier also, we have fulfilled that.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question for today. I would now like to hand the conference over to Mr. Puneet Dalmia, for closing comments. Over to you sir.

Puneet Dalmia: So, once again, thank you all for your participation. And I know this has been a tough quarter for us with some demand compression as well as sudden increase in cost spikes. But I think I am very positive about the future. We have seen this before; we have been in this business for many decades. And there will be bumps along the way. But I think I have never been more positive and more convinced about a bright future for our country as well as a Company.

So, once again, we continue to march ahead with our CAPEX plans, we continue to become more efficient, we will continue to become more green. And we are confident as I said in my earlier calls also that the best for the Company is yet to come. Once again, thank you for your feedback and wish you all a great 2022 and look forward to catching up with you in our next earnings call. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Dalmia Bharat Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.