



"Dalmia Bharat Enterprises Q1FY13 Results Conference Call"

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MANAGEMENT:

**MR. DEEPAK SOGANI – EXECUTIVE DIRECTOR, STRATEGY & CORPORATE FINANCE, DALMIA
BHARAT ENTERPRISES LIMITED**
MR. V P SHARMA – COO, DALMIA BHARAT ENTERPRISES LIMITED
MR. VIPIN AGARWAL – CFO, DALMIA BHARAT ENTERPRISES LIMITED
**MR. CHANDRASEKHAR KINI – SENIOR EXECUTIVE DIRECTOR, SALES & STRATEGIC PLANNING,
DALMIA BHARAT ENTERPRISES LIMITED**
MR. PAVLEEN TANEJA – DEPUTY MANAGER, DALMIA BHARAT ENTERPRISES LIMITED

- Moderator** Ladies and gentlemen, good day and welcome to the Q1FY13 Results Conference Call of Dalmia Bharat Enterprises hosted by MF Global Sify Securities India Pvt. Ltd. As a reminder, for the duration of this conference, all participants' 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 the conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. I would now like to hand over the conference to Mr. Vaibhav Agarwal of MF Global Sify Securities India Pvt. Ltd. Thank you. And over to you, sir.
- Vaibhav Agarwal** Thank you, Mohsin . On behalf of MF Global Sify Securities India Pvt. Ltd., we welcome you to the 1QFY13 earnings conference call of Dalmia Bharat Enterprises Limited. We have with us Mr. V.P. Sharma – Chief Operating Officer; Mr. Deepak Sogani – Executive Director, Corporate Finance & Strategy; Mr. Chandrashekhar Kini – Head, Sales & Strategic Planning and Mr. Vipin Agarwal – Chief Financial Officer. At this point of time I will hand over the floor to Mr. Pavleen Taneja for the opening remarks which would be followed by a presentation by the management and then an interactive Q&A session. Over to you, Pavleen.
- Pavleen Taneja** Thank you, Vaibhav. Good afternoon, ladies and gentlemen. Welcome to Dalmia Bharat Enterprises Limited Financial Year 2013 First Quarter's Conference Call. I have with me on the call Mr. Deepak Sogani – Executive Director, Strategy & Corporate Finance; Mr. V.P. Sharma – Chief Operating Officer; Mr. Vipin Agarwal, Chief Financial Officer and Mr. Chandrashekhar Kini – Senior Executive Director, Sales & Strategic Planning to discuss some of the recent events and results of the company. We will commence the call with comments from the management team 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 maybe 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 detailed statement in this regard is available in the results presentation made available by the company. I would now like to invite Mr. Deepak Sogani to share the key highlights of DBEL. Over to you, sir.

Deepak Sogani

Thanks, Pavleen and greetings everyone. We just sent across our results presentation. Perhaps you may have just received it or you will kind of receive it in parallel. Let me just quickly share some perspectives on the performance of DBEL for the quarter gone by. We would like to begin by saying that during the quarter under review our overall performance of the business as whole has been fairly good led by Cement side of business in the southern market and further supported by stable performance of other miscellaneous businesses.

We are pleased to announce that a consolidated performance shows our net revenue in Q1 of 2013 which has increased by 22% to Rs. 643 crores on YoY basis. At the EBITDA level, in the current quarter the company has recorded a consolidated EBITDA of Rs. 164 crores, up 35% YoY basis and up 20% on a QoQ basis.

The macroeconomic environment has been stable for the industry as the all-India demand for Cement had grown by 10.8% and demand in South without Maharashtra has grown up by 9.5% in Q1FY13 on a YoY basis.

We are pleased to announce that we have delivered 12% volume growth in this period.

Our associate company OCL India Limited in which we have 45% stake has reported its financial results a few days back. The company has plant located in Orissa and is catering to eastern market where the Cement realizations have improved during the quarter under review. The company has recorded

growth in net revenue of 33% in Q1FY13 to Rs. 477 crores on a YoY basis and 43% growth on QoQ basis. The EBITDA in the current quarter Q1FY13 in OCL was Rs. 144 crores which is higher by about 100% on YoY basis, mainly due to improved volume and better price realizations in the region.

You may recollect that in the comparable quarter last year we had some disruptions in the plants which are not the case in the current operating quarter as well.

During the quarter under review, eastern market demand has grown by 9.6% on YoY basis as against OCL dispatches which have also grown by 9%. Our OCL plants were not operating for part of the period during Q4FY12 for the want of forest clearance for its mining operations which has affected the results of the quarter gone by. The plant has resumed operation to normal effective first week of April 2012 and as a result we have a better outlook for FY13.

It is our pleasure to inform you that during the quarter under review we have commissioned the Second 27 MW Captive Power Plant at Rajgangpur successfully. The total operational capacity for the captive power plant has increased to 54 MW. This would continue to provide the benefit of uninterrupted supply of power to the plant and simultaneously provide tax benefit.

In our Kadapa plant, we have commissioned the railway siding during the quarter under review. We are hoping that this will help us deepen our reach in the market and help us save our logistics cost as well.

Cement is yet to see a lot of growth and we are well placed to plan effective leadership role of the company in terms of capacity, profitability, sustainability and CSR. The focus of the management is to continue to enhance operating performance.

With this I would like to hand over the discussion to Mr. V.P. Sharma, our Chief Operating Officer who will take you through the detailed operating performance of the business. Sharmaji, over to you.

V.P. Sharma

Thank you, Deepak. South India demand growth Dalmia has shown a good growth in Tamil Nadu by 18%, we have grown by 24% in Kerala and 5% in Karnataka. However, A.P. has shown a degrowth of 21%.

On the sales front, the company continues to make headway in its four markets of Tamil Nadu, Kerala, A.P. and Karnataka. And is expecting to show higher growth rates in the coming quarters backed by demand from both trade and non-trade sectors.

On the operations side, our efforts on energy efficiency has helped us to reduce power consumption per metric tonne of cement from 75 KWH in the Q1FY12 to 71 KWH in Q1FY13. We have also been vigilant towards the dynamic prices of imported coal which are quite volatile and we have switched over to usage of non-fossil pet coke in quite significant proportions across our three units.

Power business – the total power generated is 6.43 crores of units during Q1FY13 as against 5.81 crores KWH for the same period last year showing a growth of 11%.

The TNSEB the rates have gone up to Rs. 5.11 per KWH during the quarter under review from 5.04 KWH as prevailing in Q4FY12 on QoQ comparison.

In pursuit of our journey towards 'Go Green' continues and focused activities are undertaken on regular basis. I am pleased to inform that in recognition of our efforts our Ariyalur Plant bagged 'Green Award for '11-12' from 'Ministry of Environment, Government of Tamil Nadu' for 'Best Environmental Practices.'

We have been working on attaining excellence in logistics, marketing and operations by creating center of excellence for each of these functions which would help us by creating and formulating a strategy and adapting to the new best practices which we believe will help in creating added value for the organization.

Now, I would like to hand over to Mr. Vipin Aggarwal, our CFO will take you through the detailed financial performance. Over to you, Vipin.

Vipin Agarwal

Thank you Mr. Sharma. Ladies and gentlemen, thank you once again for taking interest in Dalmia and the associates of Dalmia and being present on this call. I would now discuss the performance of the company for the quarter under review period and for the benefit of listeners I want to state that all comparisons will be made with the comparable period of previous year except were specifically highlighted. I should also be referring to the consolidated performance of Dalmia Bharat Enterprises Limited.

To provide you some color on the Cement volume we sold about 1.39 MT of Cement in the quarter as compared to 1.24 MT in the comparable quarter last year. This translates to increase of about 12% on a YoY basis. Correspondingly, with the volume our realizations in Cement also went up to about Rs 4400/T plus levels in Q1FY13 which is up by about 13% on YoY basis and about 3% on immediate preceding QoQ basis. This is something which is slightly in line and I would say marginally better than the regional trends in the pricing.

EBITDA on Cement sale has improved to Rs 1,000/T plus levels for the FYQ1 which is higher by about 15% on YoY basis and up by about 20% sequentially.

On a PMT comparison, power and fuel cost have come down by 4% on YoY basis and 3% sequentially. Our freight charges have increased by about 22% on YoY basis and 2% sequentially primarily because of the railway budget which was announced in the month of February last financial year.

The company continue to make headway in its four markets of Tamil Nadu, Kerala, A.P. and Karnataka and is expected to show higher growth rates in the coming quarter led by demand from both trade and non-trade sector.

Orissa Cements, the volumes increased by 1% in Q1FY13 to about 0.8 plus MT on YoY comparison and by 34% on a sequential quarter comparison. Prices have also improved resulting in higher realization on net cement realization basis which is close to Rs. 5,000 a tonne, significantly higher by about 37% on YoY basis and 24% on QoQ basis.

In terms of per metric tonne of EBITDA, improvement has been to about Rs.1600 plus levels which is somewhat a very lead indicator on all-India basis in the cement industry. And if we compare the same company last year it is about almost in the 100% increased category.

Reflecting back to DBEL, the consolidated results, the total net debt of the company has reduced to about Rs. 1044 crores at the end of Q1FY13 compared to Rs. 1282 crores reflecting a reduction of over Rs. 280 crores.

Moving on, our interest cost in Q1FY13 the number is about Rs. 43 crores; however this interest has increased from 38 crores during the same period last year primarily due to 6 crores of foreign exchange loss emerging from the volatility in the foreign currency market.

DBEL has however earned treasury income on its liquid investment and the treasury income in Q1FY13 is 15 crores as against 20 crores earned in previous quarter of last financial year. Taking into account DBEL has stake in OCL India, the latter contributed to 30 crores to DBEL consolidated bottom line for the Q1FY13 as against 11 crores in Q1FY12.

This brings me to the end of our comments on the results and would like to request the moderator to open the forum for questions and our responses on that.

- Moderator** Thank you. We will now begin the question-and-answer session. The first question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.
- Jinesh Gandhi:** My question pertains to for DBEL as against 1Q realization of Rs 4400/T, how would it be now?
- Vipin Agarwal** The trend is continuing. It is in the same region.
- Jinesh Gandhi:** We are not seeing any meaningful decline in prices?
- Vipin Agarwal** Not as of now. The current status in Andhra Pradesh is somewhat disappointing but no major impact so far as the current rate is concerned.
- Chandrashekhar Kini** I will reflect what Vipin has said and we have also been fairly careful in terms of managing our markets in terms of realization. So, we manage the realization little better by realigning our volumes to appropriate markets, especially in the current situation.
- Jinesh Gandhi** And secondly, Q1FY13 you indicated QoQ improvement in realization of 3% and EBITDA QoQ improvement of 20%. Can you just highlight from where did we get such a huge EBITDA growth? QoQ seems our realization would have improved by about Rs. 100 a tonne and despite cost push on rail freight despite that or EBITDA has improved in a much bigger manner?
- Deepak Sogani** The realization has actually gone up by 13% on a YoY basis.
- Jinesh Gandhi** I am looking on QoQ; March quarter versus June quarter?
- Vipin Agarwal** The realization increase is something which is compared to March quarter, in the month of March because there is a little bit of volume pressure, so comparatively the first quarter is slightly more remunerative in terms of prices and I think if I am not mistaken, there have been a couple of price increases also which have taken place since March, so they have also added to the bottom-line.

- Jinesh Gandhi** QoQ realization increase is 3%, is that right?
- Vipin Agarwal** Yeah.
- Jinesh Gandhi** On the cost side, QoQ how cost would have behaved in the March versus June quarter?
- Vipin Agarwal** So far as the cost part is concerned, we have a very interesting phenomena. We have certain factors which are very favorable, we have certain factors which are not so favorable. Coming to the favorable factors, the prices so far the coal is concerned which is one of the very primary ingredients which really affects our cost and thereby the profitability, the prices in the international market have been somewhat depressed. For instance, even a bit of upside. But if you really compare to the foreign currency part, despite a lot of hedging and a lot of kind of I would say, business rising from that part, there has been a bit of offsetting on that. Therefore, I think cost generally when we have both the kind of things so therefore net-net it is by and large kind of on a flat basis compared with respect to Q4 and we would not really say that there is any great kind of expenses either. So we had some kind of an inflationary cost push on the fixed cost but the overall per ton basis the trend compares well with respect to the previous quarters.
- Jinesh Gandhi** So on QoQ basis, cost per tonne has been largely flat?
- Vipin Agarwal** Yeah.
- Jinesh Gandhi** And second question pertains to your fuel mix. You indicated that you have been proactive with respect to usage of pet coke. So, can you give some color to that with respect to what could be your consumption of linkage coal, imported coal and pet coke?
- V.P. Sharma** This quarter we have used almost 16, 17% of pet coke from the total fuel consumption. And pet coke is around Rs. 9.50 per million kilo calories against a coal price of 1120, 1125. So that helps us to control our

consumption cost. And going forward also we will continue to try to diversify our fuel to various alternative fuels to help us to control the cost of fuel.

Jinesh Gandhi And this 1100 to 1125 per million kCal is imported coal?

V.P. Sharma Imported coal, yes.

Jinesh Gandhi And how much would be imported coal in terms of our consumption?

V.P. Sharma Consumption, as we mentioned that in a very typical way if we say we could use some part of coal in our kiln and some part in the precalciner. In the kiln we use almost 35, 50% which is pet coke and 60, 65% which is precalciner which is imported coal. So, that is the ratio which we use. But on a quarterly basis around 16, 17% because we started using more from May onwards.

Jinesh Gandhi: And more from full year perspective, the 16-17% can go up to 20, 25% easily?

V.P. Sharma Today, if you ask me it is almost more than 25%, but again, question of availability of pet coke. If you ask us in the second quarter we do not have now sufficient stocks with us because the prices of pet coke as of today is more than Indonesian coal, around 11.50. So, prices fluctuations a lot. There is volatility because of the probably recession, because we are importing pet coke also. And in India the pet coke is mostly with Reliance or Indian Oil Corporation and it is far from us from the location wise. Even that delivered is around 11.50. Today, we find the Indonesian coal is much cheaper even than pet coke if we buy it in today's market. But we are allied to the market situation and as and when the prices are favorable to us we will buy again the pet coke. The fuel basically depends upon the market situation which fuel when we use.

Jinesh Gandhi And what would be the linkage coal proportion to our overall fuel mix?

V.P. Sharma Yes, we have linkage coal but we are getting almost 6000 tonnes a month linkage coal. That too for our Dalmiapuram plant which is the old one.

- Jinesh Gandhi** So that is nothing much?
- V.P. Sharma** It is nothing much, so mostly we are depending upon the imported coal.
- Jinesh Gandhi** And last question on your CAPEX. Any update on your CAPEX plans with respect to the new projects?
- Deepak Sogani** We are almost there. We are about to start a project perhaps in the south only. Do not want to preempt an announcement but we will do it shortly. That is in DBEL or Dalmia Cements. In Orissa Cements, we have already started a grinding unit project in Midnapur in West Bengal, 1 million tonne additional capacity.
- Jinesh Gandhi** And by when that will come?
- Deepak Sogani** Somewhere in the last quarter of 2013 it will be up and ready.
- Jinesh Gandhi** Last quarter of FY13? By March '13 it will
- Deepak Sogani** Not FY13 I am sorry. December '13. Calendar year last quarter.
- Jinesh Gandhi** So we have already placed orders for this?
- Deepak Sogani** Yeah, the work is going on.
- Moderator** Thank you. The next question is from the line of Nitesh Jain from Enam Securities. Please go ahead.
- Nitesh Jain** My question is on OCL. There was some problem with respect to limestone mining in OCL last quarter. So, has this problem been resolved fully and how do you see the situation now?
- Deepak Sogani** It was fully resolved. In the current quarter there were no interruption and we believe that the required approvals from the environment side are in place.



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- Nitesh Jain** So the mining can continue uninterrupted going forward?
- Deepak Sogani** Yes.
- Nitesh Jain** And secondly, for OCL, what is our coal procurement? So it is in Orissa, so is it fully Coal India coal or how is it?
- Deepak Sogani** We used to use a lot of Northeast coal but off late we have started using imported coal which is cheaper over there. So, at this point of time the majority usage is imported coal.
- Nitesh Jain:** So we do not have any linkage coal from Coal India in OCL?
- Deepak Sogani** Very large extent, we were procuring it from Northeast Meghalaya, but we also have in a coal block in a partnership over there which is under development. So, I think in a couple of years time, that coal block will be developed and we will be able to use the coal from there.
- Nitesh Jain** So right now it is like 80% imported coal and 20% domestic coal?
- Deepak Sogani** Yes, that is right.
- Moderator** Thank you. The next question is from the line of Parul Patel from PUG Securities. Please go ahead.
- Parul Patel** These robust growth numbers that you spoken about in the south, in your key markets. Could you give us some insight into what are the demand drivers for such robust numbers, where is the one coming from, is it more from the housing segment within in this region?
- Chandrashekhar Kini** I think in Tamil Nadu and Kerala particularly we have seen housing growth pulled with institutional growth in the infrastructure sector. It has been quite encouraging. In Karnataka we have seen a lot of development in the ready-mix concrete sector as well as infrastructure sector. And the release of projects in up country markets in Karnataka where irrigation projects and

other small projects have been taking off, so that has been quite a healthy sign. I think the only negative for us overall has been Andhra Pradesh and I think the state is still in the negative because of various issues including political concerns. But the other three states have largely been growing around these factors.

Parul Patel One more question I had was that when sometime earlier when you have mentioned the imported coal and pet coke prices in million kCal so in dollar per tonne what does that come to? 1125 million kCal meaning how many dollars per tonne imported coal?

V.P. Sharma The coal we are using again depends upon the calorific value of the size. We are using around 6000, 6100 kCal but price of that coal today is around \$77 FOB. And South African coal which we have been using in the past they are on \$90 FOB. The price of coal has come down around 15 to 20% in the last three, four months.

Moderator Thank you. The next question is from the line of Jaspreet Arora from Anand Rathi Financials. Please go ahead.

Jaspreet Arora EBITDA per tonne number you mentioned on OCL 1500 tonne compared to 750-odd year-over-year, what was the quarter-on-quarter figure?

Deepak Sogani Last quarter was a difficult quarter because of the stoppage of the plant. So it is not really comparable.

Jaspreet Arora: Sure. But still what would be the number be?

Deepak Sogani Very low actually. Nothing to talk of pretty low because of the stoppage of the plant, the fixed cost was not getting absorbed adequately.

Jaspreet Arora And if you could just give the similar numbers for Dalmia current EBITDA per tonne and comparable number?

Deepak Sogani DBEL last quarter was Rs. 899 per tonne.

- Jaspreet Arora** This is you are saying the June quarter?
- Deepak Sogani** This is Q4 March quarter. June quarter is 1076. QoQ improvement is 20% and YoY 16%. This is excluding the other income obviously from an EBITDA perspective.
- Jaspreet Arora:** And if you could just help me with this number that you gave for the growth rates in the four key states, if you can just give our dispatch mix for each of these for the last quarter?
- Deepak Sogani** I think we have already put it in the presentation....
- Jaspreet Arora** I still have not got it. So I just....
- Deepak Sogani** You will be able to see over there. If you want I can read it out still. In Tamil Nadu, our sales of 54%, in Kerala 22%, in Karnataka, I think 11%, in A.P. 9% and other is 3%.
- Jaspreet Arora** I was just looking at the PBIT number in the current quarter versus the March quarter. There is 100% jump whereas the volumes are down. So besides this realization improvement was there any one-off in the March quarter?
- Deepak Sogani** Deprecation and taxation, right?
- Jaspreet Arora** Yeah, the segmental reporting that you do. So this quarter you have reported 117 crores versus 51 crores in the March quarter. The volumes are down sequentially and realizations are up. So, I understand some part of it is coming to realization but....
- Deepak Sogani** One of the things that is important to note here is that it also includes the minority income from OCL being added over there, which in the last quarter was quite low. I think in the current quarter there is a 29 crores addition on account of the minority income of OCL and last quarter it was 11 crores. So, there is a significant shift in this particular line item at least.

- Jaspreet Arora** So just the OCL and mining ban impact?
- Deepak Sogani** One large deviation that you would see other than the operating perhaps in this quarter.
- Jaspreet Arora** And you had mentioned a figure of foreign exchange loss of 6 crores in the current quarter. What would that number be in the March quarter because there seems to be upswing?
- Deepak Sogani** We are just trying to find the answer. We will just....
- Jaspreet Arora** It is okay. I can ask it offline as well. And this 12% growth rate that you have done in volumes in the first quarter. What is the kind of outlook for the full financial year?
- Deepak Sogani** Good question. We do not give guidance, right. So we leave it to you to kind of estimate that.
- Vipin Agarwal** I think for full financial year, it is difficult because we have still monsoon our way in Tamil Nadu and the current quarter is somewhat steady. That is all we know about.
- Jaspreet Arora** One of the reasons I was asking this in your presentation you have mentioned railway siding at Kadapa is going to be operationalized. So, to what extent can this really improve our dispatches or we will go only as per the market?
- Vipin Agarwal** So far as the railway siding is concerned, this will definitely give us benefit in terms of costs. That is one fundamental driver of this benefit. But so far as dispatches are concerned, would this improve substantially maybe no, because our dispatches are not really hampered because of railway siding. But yes, our reach has become better now, we can actually take it to farther places and the first advantage is going to be definitely very, very significant. If we choose we can really extend our reach. For example, we are taking material to Kerala from Andhra Pradesh which was not possible earlier. It

gives us better room for logistics planning and serves the deficient market which could be in farther places also.

Jaspreet Arora So what is all the rail-road mix as on today now?

Vipin Agarwal It is about 55-45, 60-40, it varies, something like that.

Jaspreet Arora In favor of rail?

Vipin Agarwal Yes.

Jaspreet Arora Just one last thing is CAPEX plan that you mentioned in Dalmia, the south plant, so you will be able to share more details in the next quarter?

Deepak Sogani Yes. I think we are almost there. We do not want to preempt an announcement.

Jaspreet Arora And any update on the Calcom acquisition?

Deepak Sogani Not really, meaning nothing beyond what we have shared. The project obviously will take some time to come up. In the interim the business is running as usual. They have a grinding unit. We are buying some clinker, supplying some clinker and some small volumes are kind of getting established in the northeast market, we are also trying to launch our brand over there. So, I think small move right now. The real work is really round the project which is yet to take some time to happen, right.

Jaspreet Arora So besides this south plant, any normal maintenance or nothing more coming up in the next 12 months per se?

Deepak Sogani From a big picture perspective we are already kind of committed to the CAPEX of Calcom. One more Greenfield project is something which is almost there will happen soon enough. And in OCL we already kind of spoke about 1 million tonne grinding unit in West Bengal. There are three large CAPEX that are already happening. And two smaller ones have just got concluded.

The CPP in OCL as well as the railway siding in Kadapa. Two mini projects have already been concluded. Some small mini projects have also started like waste heat recovery project has just started in Kadapa and other project which is being conceived right now and which will again be able to share if the CPP Kadapa again maybe quarter away we will be able to share that. So, some small CAPEX and some large CAPEX are all in the pipeline other than the maintenance CAPEX which are there.

Moderator Thank you. The next question is from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

Amitabh Sonthalia Wanted to get a sense of for OCL that has been one of the major contributors of our consolidated profits this quarter. In fact, is there any extraordinary element of this quarter's performance, how sustainable it is for the rest of the year if you can give us some sense of that in terms of the associate OCL performance?

Deepak Sogani I think the single largest driver if you see versus last quarter has been significant improvement in the volumes that we sold in the current quarter clearly and the pricing in the region has also been very favorable. So there is no very large one-off kind of a line item that is contributing .

Amitabh Sonthalia So it is purely operational and it is only a function of the higher volumes and better realizations that we have been able to achieve?

Vipin Agarwal I think the key highlights for Orissa Cements is after the setback of the last quarter the operations for this quarter have been very smooth so therefore again back there efficiencies of scale apart from the fact that the markets were very good and the brand value was tested once again whereby the brand was sold at a premium compared to the general market conditions. So therefore it is evident from the realization. So, I think it is like market waited for Orissa Cements to come back and then they absorb it.

Amitabh Sonthalia: So do we see those trends continuing for the rest of the year?

- Deepak Sogani** As of now the trend is continuing as on date, but yes, the God wish.
- Amitabh Sonthalia** Regarding the mining ban which happened for earlier quarter is that behind us or it is finally resolved or is it like a temporary reprieve that we got and there can be some revisiting on that issue in the future? Obviously, you cannot say with certainty but you can at least say whether the issue is fully resolved or not?
- Deepak Sogani** I think we already kind of said that that the issue was we needed some FOREX clearance approvals, but the government has revisited it, which we already now have. The full last quarter we had adequate limestone and we believe that we will be able to continue operations throughout the year. One of the points that perhaps needs to be highlighted also from an OCL performance point of view is that because we did not have adequate limestone in the last quarter we were purchasing clinker which was obviously significantly more expensive and in the current quarter we were able to manufacture our own clinker which has augmented. So clearly, more volumes significantly better price points in the region as well as cost reduction on account of clinker purchase which was not there any more. These are three larger drivers and they all appear to be sustainable given the current understanding of the business at least.
- Amitabh Sonthalia** My concern rather was on the mining ban side. Is there any possibility that we can face that situation again in the future?
- Deepak Sogani** Not that we know of, we have already said that.
- Amitabh Sonthalia** And coming back to the parent company, a couple of general sort of questions; one, of course, is on a consolidated basis, our valuations in terms of EV per tonne is close to like \$40 which is a third of replacement cost and probably the lowest even the mid cap universe. One of the reasons have been given is that we have a holding company structure that we have 45% stake in OCL, we have 85% stake in the operating cement company, Dalmia. So, essentially, Dalmia Bharat is more like a holding company and there is a

50% standard holding company discount that market gives to such company. So is that the optimal way you would like to remain listed, do you want to merge your operating company with yourself so that you achieve fair valuation for all your stakeholders. I am just something I am sure which does not have an easy answer but some quick thoughts on that would be highly appreciated?

Deepak Sogani

Obviously, we cannot kind of preempt or present the view that has not been tabled in the board or has been taken in an organization context, right. We understand your point. Let me try and share my thought. I will not say that we have a holding structure because there is no real access to the operating companies to any other ways. So we do not intend to get the operating company listed or anything of that sort. So the only way kind of reach out to the operating business of the cement business from an investor point of view is to the current listed company. That is our hope that people understand, our view point on the structure and start evaluating appropriately where we can say.

Amitabh Sonthalia:

And KKR investment is of course at the subsidiary level which is you have 85% stake and KKR Holds 15%. So is there any understanding with them in future, if not immediate future at least medium to longer-term whether that entity will eventually get listed or separately or how do they get their exit?

Deepak Sogani

I do not think we would be able to share the details of the agreement with them but as I said I think it is important to understand that there is really no plans to get the operating company listed in the near future. So there is only way to think about it is that DBEL is the only market access point from investors point. I think it is the most important thing to understand.

Amitabh Sonthalia

Lastly, in terms of our overall return ratios that we look at ROEs or ROCEs, are in mid-single digits or somewhere thereabouts which is quite low and despite most of our CAPEX being behind us, part of it is because of capacity utilizations are lower in depressed southern market all that I understand. So I was just wondering whether what is the management's sort of intent or

target or sort of how do you achieve the minimum desired rate of returns in terms of the capital employed or ROEs for the business, again is one of the lowest in the industry?

Deepak Sogani

While you have rightly pointed out that it is perhaps amongst the lowest in the industry, what you have not captured is that our build-out rate essentially is the highest in the industry....

Amitabh Sonthalia

What is the highest?

Deepak Sogani

Our expansion rate. The rate at which we have built out capacity in the recent past or five, six years and at the rate at which we are planning to increase our capacity is the highest in the industry. Also from incubation point of view, even if we were to compare the large caps and even the mid caps the number of sites that we have worked on in terms of incubation is perhaps amongst the highest. So, what it really means is that obviously, our return ratios will be impacted because we are trying to accelerate our growth and become one of the market leaders being in the top three very, very rapidly. And in the intermediate period it is bound to happen that the return ratios will be somewhat impacted and let me give you the reasons for that. Obviously, two out of our three plants in Dalmia are very, very new. Kadapa and Ariyalur plants are relatively new and are working at significantly lower capacity utilization related to our Dalmiapuram plant. Now, over the years the capacity utilization is going up but still it is not at its optimum level. Clearly, the new CAPEX to old CAPEX in our company is like practically 70% which is not comparable with I would say many of the large cap for definite meaning if you see the rate of Ultratech CAPEX addition or if you see ACC and Ambuja CAPEX addition is far slower as a percentage relative to us. And even if you compare it with the mid caps we would perhaps compare right at the top amongst all comparable universes in terms of the new CAPEX percentage out of the total CAPEX. So, that is one point that you should understand which is of course one needs to play in the interim to if you really want to grow. On the second hand if you look at the

fact that we have significant investments which will all become productive, like Calcom is sitting as an investment in the balance sheet and really no return is attributable to it at this point of time.

Amitabh Sonthalia

Has that money fully been deployed, the amount that you have committed there?

Deepak Sogani

Partly deployed, partly yet to be deployed but the capital has started going out clearly and we are committing resources to it for sure. So that is a clear northeast entry that we are making and we believe that this market is an attractive market for us strategically and we are working very hard to establish a brand. So from just south we are now becoming northeast then again our stake in Orissa Cements Limited is not consolidated, right, again, we have a significant presence in the east through that. So the way is you can look at Dalmia is that although one way to look at the current operating income is just a southern player but from an investment portfolio point of view it has already got significant presence in the east and now in the northeast and broadly playing it to be a Pan India player. From an incubation point of view we have three sites incubated in the south which are reasonably varied. And I think all the analysts and investors understand that the replacement cost has gone up tremendously. It used to be around \$100 a tonne, maybe a year and year and a half that everybody used to talk about the replacement cost to be in the zone of \$100 a tonne, now if you kind of do the math the replacement cost is already coming closer to \$140 per tonne. So these incubations that we have already invested in the south, we have invested in one incubation in the north, one incubation in the central India, one more incubation in the north. If you look at the various stages the incubation that we already have on our balance sheet around six-odd incubations are there which I would not be wrong but I would claim to be amongst the highest incubation ratio to existing capacity ratio in the industry again. So, all these are leading indicators of what we are aspiring to become and as we transform our business all of this will become very visible to the investing universe. On the other hand we are working very hard on

our operational excellence stabilizing our operations in a very systematic manner, trying to increase our capability to manage Pan India business through standardization of processes and systems. So, I think on all fronts we continue to put in our energy and we are hopeful that the investors who had confidence in our managerial capability will understand the long-term vision of the group and support us in that fashion.

Amitabh Sonthalia

And what is our timeframe that we have in mind for all these incubations and all the investments that we have made for them to bear the fruit and then to reach a desired level of return ratios?

Deepak Sogani

It is difficult for me to say. We are in the business of building a process. And clearly, it is like premature to say what is the good time, what is the bad time, because incubation is not an easy cup of tea in the country anyway. There are lots of grass root level issues. So, one works very hard. The aspiration is clear. We want to become 40 to 50 million tonne Pan India cement player, expand our footprints Pan India, also expand a product portfolio. We already have one of the best special cement portfolios to further expand our special cement portfolio to augment our product line. So, I think we are working on all the fronts. What is important is that in the near-term we are planning our Greenfield. We have already acquired one company. So if you look at the traction on the ground in the last 12 months we have acquired one company. We have set up the capacity expansion in OCL and we are round the corner for one more Greenfield expansion to start-off. So I think we would rather be measured in terms of what actions we are taking in the near-term rather than commit on next three years, five years, seven years that is more difficult for us. That is for you to judge and take it forward really.

Vipin Agarwal

If we just to supplement you, what you are saying is if you see the operating capital which is deployed in the business and you work out the ROCE I think the results are going to be pretty satisfying. It is only the manner in which computes the number can one draw a conclusion that it is not satisfactory.

But I think the net sum and substance is what we are saying is that operating performance to the capital deployed is well reflected but then we have challenges of several initiatives which we have taken.

Deepak Sogani Absolutely. It is a larger group in the making. That is the way to look at it. I would like you to remember.

Vipin Agarwal That is a very strategic kind of underlining point which one is trying to attempt and I think to that extent there is some kind of reasonable gestation which is well deserved.

Deepak Sogani You can even see the last five years growth rate for us, right. From 1.5 million tonne to 15 million tonne right now we are almost like 10 times in terms of our capacity expansion, right, one way or the other indirectly, and that speaks volumes about what we are doing in a quite manner. We have not done a lot of equity dilution, quite of it is through our debt innovation and quite of it is through our right timing and focus growth initiatives. I think the shareholders will get reward from that perspective.

Moderator Thank you. The next question is from the line of Jinesh Gandhi form Motilal Oswal Securities Ltd. Please go ahead.

Jinesh Gandhi My question pertains to coal prices. Clearly, there has been some decline on the international coal prices side. Does your 1Q result fully reflect for the lower coal cost prices? If not, what would be the current coal cost vis-à-vis 1Q?

Deepak Sogani I will obviously have to share specific numbers maybe later, but let me give you the flavor of the story. The way we operate our coal business is that we continuously used to buy forward. So the quarter that has gone by most of the coal that has been procured was a result of the orders that we replaced in past. And the coal has been received and we have consumed part of it and part of it is still lying in the inventory. So, my sense is that over the next couple of quarter's part of the inventory which is there with assets higher

costs will obviously get consumed on a FIFO basis. However, we have been able to unlock some of our long-term contracts or the number of contracts that are now coming up in the balance part of the year are at lower prices. So, gradually at least couple of quarters you will start seeing the benefit of the lower coal prices; however, let me just request Mr. Sharma to add on to this so that you get a better perspective.

V.P. Sharma You are right, first quarter normally because companies like us we normally keep 1.5 month inventory with us because we are depending upon the imported coal. So whatever the Q1 coal we had was obviously from Q4 prices. At that time prices were quite on the higher side because price is where it started doing round from April onwards if you ask me. Coal which we have booked for Q1 was in the Q4 and Q3 end. So you are right that what coal now we will get in Q2, Q3, and Q4 for which we have already planned and booked our consignments it will be quite better in terms of prices.

Jinesh Gandhi Would we be saving about 10 to 15% in imported coal cost?

V.P. Sharma Yes, based on our diversification into the alternate fuel as I mentioned, pet coke and all that, we hope that we should be able to sustain the costs which is today if the prices further does not go down.

Deepak Sogani Sharma ji, if you could comment what Jinesh is also trying to understand is that given our cost in the current quarter and assuming the part of it was procured at the higher coal prices, now that the coal prices are lower in the coming quarters do we expect?

V.P. Sharma In fact, we should expect it would be lower than Q1.

Deepak Sogani I think that is the right way to look at it in the future.

Jinesh Gandhi And secondly, can you just refresh what was your extraordinary expense in fourth quarter of 39 crores?

Deepak Sogani

Let me just highlight exceptional quarter we reported it in our last earnings call. As you may recall that in 2008 we had syndicated loan package for expanding our business by an additional 10 million tonne and we are kind of paid all kind of financial charges, etc., in the pursuit of getting that loan package together, upfront processing charges and various other commitment charges and so on and so forth. And at the end of 2008 there was a global meltdown. We stopped our expansion plan and we said we first we need to strengthen our balance sheet and we did a restructuring, got KKR into it and then we said we will do one project at a time. That was the macro strategy which we had moved rather than saying that there is a big bang 10 million tonne which was what we were ambitiously looking at that point of time but the global situation did not permit us to continue on that thought process. So the COD for all the 10 million tonne project is around the corner and it became important for us to take stock of the early loan package. We opted out of that loan package and as a consequence of that although we believe that a lot of incubation has been done using that loan package but because we had to opt out and we thought it is better to opt out rather than kind of refinance it now, the rates are also much lower, compared to what the 2008 rates were. So, given everything it was better for us to seek a refinancing and that to for one project at a time. Many reasons were kind of pointing to a refinancing. So we have done that and in the process whatever bank charges were incurred or some preoperative expenses were incurred were written-off and those are special one-time expenses that were debited in the last quarter.

Jinesh Gandhi

So primarily it was on account of projects which were earlier envisaged but we did not execute it because of various reasons and that would be the way to look at it?

Deepak Sogani

Yes.

Moderator

Thank you. As there are no further questions I would now like to hand over the floor back to Mr. Vaibhav Agarwal.

- Vaibhav Agarwal** Thank you, Mohsin. Just one question from my side. I just want to know OCL, are you also looking at a clinker capacity addition, a new line of clinker?
- Deepak Sogani** This one is only a grinding unit.
- Vaibhav Agarwal:** Because our clinker capacity is currently about 2.4 if I am not mistaken and our grinding is 5.4. So with the new grinding addition now will we suffice the clinker for that, are we looking at buying clinker from outside or....?
- Deepak Sogani** Not at the moment. It is important to understand the way we are looking at it. It is important to get closer to the market as we try and improve our volumes. This grinding unit is an initiative towards that. Our grinding capacity which is there in OCL is perhaps adequate if we produce a fairly large proportion of slack cement. Now, we are trying to blend it a little bit with TTC as well and a little bit additional capacity would actually help. That is the way to look at it.
- Vaibhav Agarwal:** On behalf of MF Global Sify Securities I would like to thank the management of Dalmia Bharat Enterprises Limited for the opportunity of the call and also many thanks to all the participants for joining for the call.
- Deepak Sogani** Thanks, everybody.
- Moderator** Thank you. On behalf of MF Global Sify Securities India Pvt. Ltd., that concludes this conference. Thank you for joining us and you may now disconnect your lines.