# "Dalmia Bharat Enterprises Limited Q4 FY11 Results Conference Call"

May 26, 2011

**Moderator:** Ladies and gentlemen good day and welcome to Dalmia Bharat Enterprises Limited Q4 FY'11 Earnings Conference Call hosted by Centrum Broking Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sanjiv Singh from Centrum Broking Private Limited, thank you and over to you sir.

**Sanjiv Singh:** On behalf of Centrum Broking, I welcome you all to this earnings concall of Dalmia Bharat Enterprises Limited. We have with us today Mr. Puneet Dalmia, Managing Director of the company, Mr. Deepak Sogani, Executive Director Strategy and Corporate Finance and Ms. Himmi Gupta, Senior Manager, Investor Relations. I would now like to hand over the floor to Ms. Himmi Gupta for his initial comments. Over to you Mam.

**Himmi Gupta:** Welcome to Dalmia Bharat Enterprise Limited Q4 and FY'11 Annual Results Conference Call. I have with me on the call Mr. Puneet Dalmia, Managing Director and Mr. Deepak Sogani, Executive Director to discuss some of the recent events and results of the company. We will commence the call with comments from Mr. Dalmia followed by additional details from Mr. Sogani. This will be followed by an interactive Q&A session. I would like to mention 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 regards would be available in the results presentation to be shared by us later today. I would now like to invite Mr. Puneet Dalmia to share the key highlights of DBEL.

**Puneet Dalmia:** Let me begin by saying that the year under review has been one of the most influential in shaping the strategic direction that the company has embarked upon. Before I provide more color on that, I am pleased to announce that the total income for the year has grown by 13% to Rs.1,969 Crores as compared to Rs.1,746 Crores in the previous year. Operating EBITDA has grown marginally by 1% to Rs.386 Crores for FY'11 as compared to Rs.382 Crores in the previous year. We have been able to grow better than the market on account of ramping up of new capacities commissioned in AP and Tamil Nadu during the last two financial years.

Our associate companies Orissa Cement Limited in which we hold 45% stake as reported its financial results a few days back. The company has plants located in Orissa and it is catering to the eastern markets. The total income of the company has grown by 10% to Rs.1673 Crores in the FY'11 as compared to Rs.1522 Crores clocked in the previous year. The company has registered operating EBITDA of Rs.320 Crores as against Rs.403 Crores in the previous year. The company is continuously focusing on improving its operations. In series of efforts the company is making; it will be soon operationalizing its 10 km long conveyer belt carry limestone from mines. Also the company will be operationalizing two captive power plants of 27 megawatts each. The year gone has seen major events in terms of restructuring of business and KKR investment, post demerger in the cement business in order to pursue growth by adding new capacities. The company is evaluating the final plants for Greenfield expansion and would soon share the details as and when the same is finalized.

In the power business, the newly setup 27 megawatt CPP at Ariyalur has been utilized up to 58% PLF in the first year while the balance two 18 MW & 27 MW megawatt power plants at Dalmiapuram have been utilized up to 86% PLF. These excess units produced in these captive plants are exported to the grid, which has improved significantly by 133% to Rs.15.4 Crores units for FY'11 as compared to the previous year.

The net debt equity of the company has significantly improved on a YOY basis. The company is looking at all options to use the available funds in the best judicious manner in the near short-term and in the process has repaid some of the high-cost long-term borrowing.

The total current debt of the company has reduced to Rs.1930 Crores at the end of FY'11 as compared to Rs.2100 Crores standing at the close of FY'10. The net debt is Rs.1279 Crores at the end of FY'11. The net debt to equity is at 0.4 at the end of FY'11 as against 1.3 prior to the restructuring and KKR funding.

Cement is yet to see a lot of growth and we are well placed to play a sector leadership role for the company in terms of capacity, profitability, sustainability and CSR. The focus of the management is to continue to deliver on the growth of both operating metrics and earnings.

Now I would like to hand over to Mr. Sogani who will take you through the detailed accounts.

**Deepak Sogani:** Ladies and gentlemen, thank you once again for taking interest in DBEL and for being present on this call. I shall discuss the operating and the financial performance of the company for the quarter and FY'11 under review. For the benefit of the listeners, I would to state that all comparisons would be made with the comparable period of previous year except where specifically highlighted. Further I shall be referring to the consolidated performance of DBEL.

In the cement business, the gross revenue stood at Rs.1899 Crores for FY'11 period as compared to Rs.1599 Crores for the previous year, which is up by 18.7% on a YOY basis. To provide you with some additional color on the cement volume, we sold 4.62 million tonne of cement in FY'11 as compared to 4.06 million tonne in the previous year, showing an increase of 13.8% on a YOY basis. Average realization in the cement business stood at Rs.3457 in FY'11 as compared to Rs.3543 in the previous year, which is down by 2% on a YOY basis, which is in line with the regional price movements.

The EBITDA on the cement sale stood at Rs.720 per metric tonne for FY'11, which is lower by 19% on YOY basis, the drop in EBITDA is primarily due to higher power and fuel costs and lower economies of the two new plants due to its ramping up stages. We expect in the next financial year the performance of these plants to be significantly better based on higher capacity utilization from them.

On the supply front, the company continued to make headway in its core market of Tamil Nadu, Kerala, AP and Karnataka and we are expecting to show higher growth rates in the coming quarters backed by demand from both the trade and the non-trade segments. During Q4 FY'11, the company sold 1.36 million tonnes, which is higher by 26% on YOY basis and 30% on a sequential basis.

The company registered EBITDA per tonne of Rs.1330 in the Q4 FY'11, which is 252% up on a YOY basis and 56% up on QOQ basis.

In OCL the volumes grew by 10% in Q4 FY'11 on YOY basis and 13% on QOQ basis. The market in the east has seen a growth of 8.7% during Q4 FY'11 and on a YOY basis; it has seen a growth of 7%.

Prices have increased during Q4 FY'11 and average realization has improved to the tune of 9% during Q4 FY'11 on QOQ comparison, which is in tandem with the regional price movement. During the FY'11, the cement business has contributed 81% of the revenue and 19% of the business has been contributed by the Refractory Business. On the EBITDA side, cement business has contributed to 94% of the EBITDA and the Refractory Business has contributed 6% of the EBITDA.

In the power business, the total power generated is 46.4 Crore units during FY'11 as compared to 32.8 Crore units during the same period while last year showing an improvement of 41% on a YOY basis and average realization from Grid has been Rs.4.95 per unit in FY'11 as compared to Rs.5.85 for FY'10. We expect the power plant utilization will significantly improve in the coming fiscal year with higher requirements for captive usage as a result of better capacity utilization of the cement plants.

Moving on, our interest cost in FY'11 was at Rs.172 Crores up from Rs.117 Crores during the previous year due to the debt undertaken towards capacity creation in cement as well as capitalization of Ariyalur CPP Plant. DBEL has earned treasury income on its liquid investment. During FY'11 it has earned Rs.33 Crores as against Rs.12 Crores in FY'10. Taking into account Avnija stake in OCL India, the latter contributed to Rs.52 Crores to DBEL consolidated bottomline for fiscal year 2011.

Just to quickly touch upon the key factors that influenced the performance in FY'11 the restructuring of our businesses and funding from KKR, ramping up of the two new cement plans commissioned in the last couple of years and the two new captive power plants also in the Ariyalur unit, retention of market share as well as margin by OCL in the eastern market despite increased competition.

Our Company has improved debt equity ratio and improved balance sheet ratios on the whole. That brings me to the end of our comments. We would like to request the moderator to open the forum for queries. Thank you.

**Moderator:** Thank you very much Sir. We will now begin the question and answer session. The first question is from Tian Ming from Navis Capital. Please go ahead.

**Tian Ming:** I may not have caught this during the presentation but what was the consolidated full year net profit for FY'11?

**Deepak Sogani:** We said that we will just send out the earning release a little later, our board meeting just got over so we are in the process of completing the earnings release, so you should see it in your mail box later today.

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

**Jaspreet Arora:** Just wanted to check you mentioned the EBITDA pattern of Rs.1330/ton for the quarter, right?

**Puneet Dalmia:** That is right.

**Jaspreet Arora:** And the sequential number is somewhere around Rs.850?

**Puneet Dalmia:** Yes that is correct.

**Jaspreet Arora:** Can you give me the corresponding realization numbers as well?

**Himmi Gupta:** Realization for Q3 FY'11 was Rs. 3753. Realization for Q4 FY'11 is Rs.3938.

**Jaspreet Arora:** So basically wanted to check there is less than Rs.200/ton increase in realization, so where is the balance increase in EBITDA coming from, and where are we benefiting besides the volume impact?

**Deepak Sogani:** Obviously there is need of bit of reduction in the raw material consumed and Jaspreet why do not we will just get back to you offline on this.

**Jaspreet Arora:** The volumes for the full year, I missed out Sir for FY'11?

**Puneet Dalmia:** 4.6 million tonnes.

**Jaspreet Arora:** For the quarter, it is 1.35?

**Puneet Dalmia:** Yes, basically we are doing a runrate, which is significantly better than annual that is gone that is what we are saying. So we are saying is that in the next year, we will be able to obviously based on the current runrate hope to be able to do significantly larger volumes relative to FY'11, capacity utilizations could increase and therefore the operating leverage could kick in the coming years, thereby reducing our cost overall, it is the overall thought processes based on these numbers.

**Jaspreet Arora:** So on a capacity of 9 million tonnes if I analyze the last quarter runrate, we are doing roughly 60%, am I right?

**Puneet Dalmia:** Yes, 5.4 million tonne would be the runrate.

**Jaspreet Arora:** Divided by 9, it is about 60% for the last quarter?

**Puneet Dalmia:** Yes.

**Jaspreet Arora:** Just wanted to check, when you are saying instantly higher volumes next year, which is basically current year, what kind of volume growth are you looking at for the company and for the industry and basically the south based industry?

**Puneet Dalmia:** This year again you know, I think we do not have a policy of giving guidance.

**Jaspreet Arora:** What is your outlook on the industry basically the south, how do you expect that to grow?

**Puneet Dalmia:** As you are aware clearly south excluding Maharashtra has not grown this year at all like 0.3% annualized growth in the south, but we have seen Tamil Nadu, Kerala and Karnataka, all showed some reasonable growth in the last couple of quarters, obviously AP was still a question.

**Jaspreet Arora:** We would like to know what your view on the matter in terms of the serious growth?

**Puneet Dalmia:** I think we still continue to see a lot of fluidity in Andhra Pradesh and the first month in April we have seen negative growth. We continue to see a lot a of fluidity in Karnataka because of the political situation, on and off, but we see after the regime change in Tamil Nadu, we see a lot of focus on economic development in Tamil Nadu and we expect the state government to take lot of policy measures to kick back economically. In fact in this swearing in ceremony the new Chief Ministry compared the developmental model of Gujarat that Tamil Nadu should be accounted close to Gujarat in the future and she has also told all the bureaucrats that she will be monitoring performance every month. So I think we are seeing some positive signals and the mindset to get lot of economic development going in Tamil Nadu but it is early days and we will have to see how it pans out. Similarly I think in Kerala also there is a lot of enthusiasm with the government and we are hoping that Kerala will also grow. I think I am positive and cautious about Tamil Nadu and Kerala, but in Andhra Pradesh and Karnataka we still feel that there is some more flat or downside form in terms of growth.

**Jaspreet Arora:** What is your view on the new supply in the southern region for the balance part of fiscal 12 and fiscal 13 and how could that really impact prices besides other factors?

**Puneet Dalmia:** I think there are enough surpluses anyway right now. So I personally believe that even though a few new plants are coming in. They are at least in Tamil Nadu it is by Madras Cement and Chettinad Cement both of them have existing stake in this area. So I expect them to remain quite disciplined. In Andhra Pradesh we see to new entrance, which is JSW and JP, which are going to commission during the latter part of the fiscal year or calendar year and I think it remains to be same on how those new players adapt to the market and their behavior whether it is irrational or rational. So I think I continue to hold a very cautious outlook about Andhra Pradesh and Karnataka and I continue to hold a mildly positive outlook about Tamil Nadu and Kerala.

**Jaspreet Arora:** Okay this capacity of Chettinad and Madras is it like 2 million tonne each?

**Puneet Dalmia:** Yes approximately.

**Jaspreet Arora:** Is this also going to be hitting around the same time as JP and JSW?

**Puneet Dalmia:** It will probably hit before so may be one or two quarters earlier. I think this will probably hit in the first half Q2.

**Jaspreet Arora:** Q2 CY'12.

**Puneet Dalmia:** July to September quarter.

**Jaspreet Arora:** So this is current year right?

**Puneet Dalmia:** Yes.

**Jaspreet Arora:** Just one last thing, Puneet on the current prices how have they moved vis-à-vis the last quarter and what is your outlook on that in the next six to nine months?

**Puneet Dalmia:** I think the prices have been holding quite steady, may have been a marginal uptake because Q4 is a very robust quarter in terms of demand as compared to the rest of the year. I have always maintained and my view is still the same my outlook on pricing is very cautious. I think there is lot of surplus in the industry, but the demand growth is not very encouraging at the moment. So I continue to hold a very cautious outlook on price.

**Moderator:** Thank you. The next question comes from the line of Salil Desai from IDFC Securities. Please go ahead.

**Salil Desai:** Sir on our Greenfield expansion, by when do you expect to have some clear idea and when you can proceed?

**Puneet Dalmia:** Next earnings call.

**Salil Desai:** Definitely.

**Puneet Dalmia:** Surely.

**Salil Desai:** Last time we met in analyst meet you have given an indication that one of the first projects that you will start with would be Meghalaya one does that still stand or you are still evaluating which project to?

**Puneet Dalmia:** As I told you, I will give you more visibility on the earnings call.

**Moderator:** Thank you. The next question comes from the line of Rajesh Ravi from Karvi Stock Broking. Please go ahead.

**Rajesh Ravi:** Would you just explain again what sorts of price discipline are we talking of, because it is almost more than nine months industry is experiencing price discipline. Now is not it there that larger players are the ones, who have initiated the price discipline and they have seen their market decline over this period so do you believe that this price discipline can hold on when the smaller players try to ramp up their capacities operate at higher capacities and large players would sit back and watch their market share getting eroded?

**Puneet Dalmia:** I think as I said there is lot of surplus in the industry and my outlook on pricing is cautious. I personally believe that in times of good demand, which is not monsoon, prices usually go up there have also been some cost pressures on the fuel price. Cost pressures have been passed on and I think it is none of my business to comment on who will behave what. We are seeing reasonably good demand in Tamil Nadu. This is where we have most of our exposure. There is weak demand in Andhra Pradesh, which is where we have now, one-fourth of our exposure. Despite that I think we are able to maintain reasonable margins in the ramping up phase. Having said that I said I think the situation is cautious for the next 18-24 months.

**Rajesh Ravi:** Would this cautious outlook that you are maintaining it also includes the cost pressure in terms of primarily this coal cost, what is your view on that, like what sort of escalation you are factoring in FY'12?

**Puneet Dalmia:** I see inflation all around, clearly the coal cost have moved up, diesel prices have moved up, which affect our transportation cost, the SG&A and employee cost due to increments expect to move up. So I think there is inflation all around. The question is that will we be able to pass on these cost increases to the customer or not I think that remains to be seen. So if I just the take the past track record Q1 and Q2 were tough quarters, Q3 and Q4 were reasonable quarters. We just have to see and play it by the year quarter.

**Rajesh Ravi:** Just one last question on the capacity side, what is your capacity you estimate in FY'12 to be added pan India and in the southern market if you have any numbers that you hold up?

**Puneet Dalmia:** Probably in FY'12 we would think somewhere between 30 and 35 million tonne may get added. FY'13 may be somewhere around 15-20 million tonne will get added.

**Rajesh Ravi:** South India?

**Puneet Dalmia:** South perhaps around 15 million in FY'12 and may be somewhere between 7 and 9 million tonne in the FY'13

**Moderator:** Thank you. The next question comes from the line of Ritu Modi from Ambit Capital. Please go ahead.

**Ritu Modi:** I just want to know how is the demand in terms of how are housing and the infrastructure activities going on in the south as you have said there is a weak demand in Andhra Pradesh, but do you expect that it would increase in the coming like 6-12 months and second question is how much of your dispatch goes to the institution buyers and how much would it go to very retail dealers?

**Puneet Dalmia:** On the infra side, I think in Andhra Pradesh virtually all infra projects have come to a standstill. I was talking to few construction companies and they were saying the government is very slow in its decision and also the financial condition of the government is also not very encouraging, so their payments are getting delayed. So my sense is that unless the political situation in Andhra Pradesh improves and there is clarity of leadership this is not going to improve in the short term, also if you see the recent outcome of the byelection over there, in future it has strengthened other camps and we will have see how the eventual situation plays out. In terms of housing there is some growth, but is not something, which is very high. If I look at Tamil Nadu last year the growth has been around 6%, but first month of FY11 has also been seen good numbers and I think as in said I expect a positive outlook in Tamil Nadu what the Chief Minister has singled in her swearing in ceremony, but it is early days.

**Ritu Modi:** How much would as I asked you, how much would your contribution of this dispatches will be the institution buyers, how much percent it is, if you could give me a rough idea?

**Puneet Dalmia:** I think it is probably two-third, one-third, two-third retail and one-third is institutional dispatches.

**Moderator:** Thank you. The next question comes from the line of Amit Shrivastav from Nirmal Bang Securities. Please go ahead.

**Amit Shrivastav:** My question is on your market share? How was the trend in last one year like in your prime market like Tamil Nadu and Kerala, how is the trend in your market share?

**Puneet Dalmia:** I think we have gained market share in all the states that we operate in. In Tamil Nadu we have gained about 2%-3% points. It is about 14% if I look at our volume growth we have been growing at about two times the industry growth rate for last five years.

**Amit Shrivastav:** I am looking at in a last one year, how would be the trend?

**Puneet Dalmia:** Last one year I think the overall volume growth rate for Dalmia was about 14% whereas the industry growth in south (including Maharashtra) around 3%.

**Amit Shrivastav:** But your installed capacity has increased more than that.

**Puneet Dalmia:** Yes absolutely. We are realistic about our ramp up. It has not happened overnight, but then it takes three years to build new cement plants. We have to take a call with a long-term view rather than with the quarter-by-quarter view in the investments.

**Amit Shrivastav:** So what where the capital utilization for you new capacity?

**Puneet Dalmia:** It is about 60%.

**Amit Shrivastav:** 60%, we have blended on or it is for the new capacity?

**Puneet Dalmia:** No it is for the blended.

**Amit Shrivastav:** Right, so for the new capacity how much?

**Puneet Dalmia:** It is 40%-50%.

**Amit Shrivastav:** Next question is related to the OPC versus PPC how would be the share on that?

**Himmi Gupta:** PPC 60%, 37% is OPC and rest is special cement.

**Moderator:** As there are no further questions, I would now like to hand over the floor to Mr. Sanjiv Singh for closing comments.

**Sanjiv Singh:** I would like to thank everyone for attending this call. I would also like to thank the management for giving us the opportunity to host the conference call. Thank you all.

**Puneet Dalmia:** Thanks everybody.

**Moderator:** Thank you. On behalf of Centrum Broking Private Limited that concludes this conference. Thank you for joining us.