

## Operator

Ladies and gentlemen good day and welcome to Dalmia Bharat Enterprises Limited Q4 FY11 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. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Sanjeev Singh of Centrum Broking Private Limited. Thank you and over to you sir.

## Sanjeev Singh, Centrum Broking Private Limited

Good afternoon everyone on behalf of Centrum Broking, I welcome you all to the earnings concall of Dalmia Bharat Enterprise 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 Puneet Dalmia for his initial comments. Over to you sir.

## Himmi Gupta, Senior Manager, Investor Relations

Myself Himmi Gupta. I am member of the Investor Relations. We have not sent out the news release as our Board Meeting has just got over. We will send it later today. Thank you, good afternoon ladies and gentlemen. Welcome to Dalmia Bharat Enterprise Limited fourth quarter and financial year 2011 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 interacting Q&A session.

I would like to mention certain statements that maybe made or discussed on the conference call, may be forward-looking statements. The actual results may vary significantly from these statements. The company does not offer to update them publicly with the change in performance. A detailed statement in this regard is available in the results presentation made available by the company. This we have sented now, we will send it later today. I would now like to invite Mr. Puneet Dalmia to share the key highlights from DBEL.

## Puneet Dalmia, Managing Director

Greetings to everyone. 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 colors on that, I am pleased to announce that the total income for the year has grown by 13% to Rs.1,969 crore as compared to 1,745 crore clocked in the previous year.

Operating EBITDA has grown marginally by 1% to Rs.386 crore for FY11 as compared to 382 crore in the previous year. We have been able to grow better than the market on account of ramping of new capacity commission in AP and Tamil Nadu during the last two financial years.

Our associate company Orissa Cement Limited, in which we hold 45% stake has reported a financial result a few days back. The company has plant located in Orrisa catering to the Eastern markets. The total income of the company has grown by 10% to 1,673 crore in financial year 2011, as compared to 1,522 crore clocked in the previous year.

The company has registered operating EBITDA of 320 crore as against 403 crore 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 kilometer long conveyor belt to carry limestone from mines. Also the company operationalizing two captive power plants of 27 megawatts each.

The year gone by has seen major events in terms of restructuring of business and investment from KKR, post demerger in the cement business in order to pursue growth by adding new capacity. The company is evaluating the final plan for a greenfield expansion and we will soon share the details as and when the same is finalized.

In the Power business, the newly set up 27 megawatt CPP at Ariyalur has been utilized up to 58% PLF in the third tier of . As the

balance stood 27 megawatt power plants at Dalmiapuram is utilized up to 86% PLF.

These excess units produced in this captive plants are exported to the grid, which has improved significantly by 133% to 15.44 crore units for financial year 2011 as compared to the previous year. The net debt to equity of the company has significantly improved on a Y-o-Y 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 of repaying some of the high cost long-term borrowing.

The total gross current debt of the company has reduced to 1,930 crore at the end of financial year '11 as compared to 2,100 crore standing at the closure financial year '10. The net debt is 1,279 crore for -- at the financial year '11. The net debt to equity is at 0.04 at the end of FY11 as against 1.3 prior to the restructuring in KKR funding.

Cement is yet to see a lot of growth and we are well placed to play a sectoral 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 performance.

## **Deepak Sogani, Executive Director**

Thank you Puneet. Ladies and gentlemen, I thank you once again for taking interest in DBEL and for being present on this call. I shall discuss the operating and financial performance of the company for the quarter and the financial year

2011 under review.

For the benefit of the listeners, I would like to say that all comparisons will 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.1,899 crore for FY 2011 period as compared to Rs.1,599 crore for the previous year, which is up by 18.7% on a Y-o-Y basis.

To provide you with some additional color on the savings volume, we stored 4.16 tonnes of cement in FY 2011 as compared to 4.06 million tonnes in the previous year, showing an increase of 13.8% on a Y-o-Y basis.

Average realizations in the cement business stood at Rs.3,457 in FY11 as compared to 3,543 in the previous year, which is down by 2% on a Y-o-Y basis which is in line with the regional price movements. The EBITDA on the cement sales stood at Rs.734 per metric tonne for FY11 which is lower by 15% on Y-o-Y basis. The drop in EBITDA is primarily due to higher power and fuel cost and lower economy of the two new plants due to plant pick up stages. We expect with the next financial year, the performance of these plants could be significantly better based on higher capacity utilization from them.

On the supplies front the company continued to make advances in its core markets of Tamil Nadu, Kerala, AP and Karnataka and it's expecting to show higher growth rates in the coming quarters backed by demand from both the trade and the non-trade segments.

During Q4 FY11 the company sold 1.356 million tonnes, which is higher by 26% on Y-o-Y basis on 30% on a sequential basis. The company registered an EBITDA per tonne of Rs.1,384 for quarter four FY11, which is 281% high on a Y-o-Y basis and 62% up on Q-o-Q basis.

In OCL, the volume grew by 10% in Q4 FY11 on Y-o-Y basis and 13% on Q-o-Q basis. The market in the East has seen a growth of 8.7 during FY -- during Q4 FY11 and on a Y-o-Y basis it has seen a growth of 7%. Prices had increased during Q4 FY11 and the average realization has improved with a tune of 9% during Q4 FY11 on Q-o-Q comparison which is in parallel with the regional price movements.

During the FY11 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 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 FY11 as compared to 32.8 crore units during the same period last year showing an improvement of 41% on a Y-o-Y basis and average realization from grid has been Rs.4.95 per unit in FY11 as compared to Rs.5.854 FY10.

We expect the power plant utilization will significantly improve in the coming fiscal year for which a higher requirement for captive usage, as a result of better capacity utilization of the cement plants. Moving on our interest cost in FY11 was Rs.172 crore up from

Rs.117 crores during the previous year due to the debt undertaken towards capacity creation in cement as well as capitalization of the Ariyalur CPP plant.

DBEL has earned treasury income on its liquid investments during FY11 which is around Rs.33 crores as against Rs.12 crore in FY10. Taking into account of major stake in OCL India, the latter contributed to Rs.62 crores of DBEL consolidated bottom line for the fiscal year 2011.

Just to quickly touch upon the key factors that influence our performance in FY11, the restructuring of our business is in funding from KKR, ramping up of the two new cement plants commissioned in the last couple of years, and the two new captive power plants also in the earlier unit, or retention of market share as well as margin-wise in the eastern market despite increased competition. Our company improved debt equity ratio and improved balance sheet ratios on the whole.

That brings me to the end of our comments. And now we would like to request the moderator to open the forum for queries. Thank you.

## Questions And Answers

### Operator

Thank you very much sir. We will now begin the question-and-answer session. [Operator Instructions]. First question is from the line of Pian Ming from Capital. Please go ahead.

### Analyst

Hi. Thanks very much for the briefing. My mind was caught just during the presentation with what was the consolidated full-year profit, net profit for FY11 please. Thanks very much.

### Puneet Dalmia, Managing Director

Yeah, so as we said that we will just send out the news 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 the later today.

### Analyst

Right, okay. Thank you.

### Operator

Thank you. [Operator Instructions]. The next question is from the line of Jaspreet Arora from Anand Rathi Financials. Please go ahead.

### Jaspreet Arora

Hi sir. Good evening. Just wanted to check you mentioned EBITDA per tonne of Rs.1,384 per tonne for the quarter, right?

### Corporate Participant

That's right.

### Jaspreet Arora

And the sequential number is somewhere around Rs.850?

## **Himmi Gupta, Senior Manager, Investor Relations**

Yes.

## **Corporate Participant**

That's correct, 854.

## **Jaspreet Arora**

854. Okay, so can you give me the corresponding realization number as well please, NSR?

## **Corporate Participant**

Yeah, just hold on.

## **Himmi Gupta, Senior Manager, Investor Relations**

Realizations for Q3 '11 was 3,753.

## **Jaspreet Arora**

Okay.

## **Himmi Gupta, Senior Manager, Investor Relations**

Realization for Q4 '11 is 3,938.

## **Jaspreet Arora**

Okay. And volume so basically just want to check there is less than Rs.200 increase in realization. So where is the balance increase in EBITDA coming from and if it's really cost then where are we benefiting, besides the volume impact?

## **Corporate Participant**

There's obviously, there has been a bit of reduction in the raw material consumed...

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

And Jaspreet, why don't we get back to you on a we will just get back to you offline on this.

## **Jaspreet Arora**

Sure. And the volumes for the full year, I missed out sir. Can you just tell me, FY11?

## **Corporate Participant**

4.6 million tonnes.

## **Jaspreet Arora**

4.6 and for the quarter is 1.35?

## **Corporate Participant**

Yeah. So, basically we are doing a run rate which is significantly better than the annual that we have done. That is what we are seeing. So, we are saying is that in the next year, we will be able to obviously based on the current rate hope to be able to significantly larger volumes related to FY11. Capacity utilizations could increase and therefore, the operating leverage could kick in the coming year, thereby reducing across overall if there has been overall thought process based on these numbers.

## **Jaspreet Arora**

Sure, sure. So, on a capacity of 9 million tonnes if I annualize the last quarter run rate, we are doing roughly 60%, am I right in saying that?

## **Corporate Participant**

Yeah 5.4 million tonnes will be the run rate.

## **Jaspreet Arora**

Divided by 9, so about 60% for the last quarter.

## **Corporate Participant**

Yeah.

## **Jaspreet Arora**

Okay. So, just want to check I mean when you think simply higher volumes next year, which is basically current year, what kind of volume growth rate are you looking at for the company and for the industry and basically the south-based industry?

## **Corporate Participant**

Jaspreet, you know, I think we don't have a policy of giving guidance.

## **Jaspreet Arora**

Okay. So what's your outlook on the industry basically the south region? How do you expect that to grow?

## **Corporate Participant**

As you are aware clearly South excluding Maharashtra is not grown industry at all.

## **Jaspreet Arora**

Right.

## **Corporate Participant**

0.3% annualized growth in the South.

## **Jaspreet Arora**

Yeah.

## **Corporate Participant**

But we have seen it's difficult to say how it will grow. Tamil Nadu and Kerala and Karnataka were showing some decent growth in the last couple of quarters.

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

Obviously, entering of the still a question. So you may you want to practise it in terms of the sales growth there. I think we still continue to see a lot of fluidity in Andhra Pradesh.

## **Jaspreet Arora**

Yeah.

## **Corporate Participant**

And the first month in April, we have seen negative growth. We continue to see a lot of fluidity in Karnataka because of the political situation.

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

On and off. But we see in after the regime change in Tamil Nadu, we see a lot of focus on the economic development in Tamil Nadu and we expect the State Government to take lot of policy measures to kick back economic growth. In fact in the swearing in ceremony, the new Chief Minister compared the developmental model of Gujarat.

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

That Tami Nadu should be counted 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 its early days and we will have to see how it stands out.

Similarly I think in Kerala also there is a enthusiasm with the government. And we are hoping that Kerala will also grow. So I think I

am, positive and cautious about Tamil Nadu and Kerala. But in Andhra Pradesh and Karnataka we still feel that there is a more flat or downside from -- in terms of growth.

## **Jaspreet Arora**

Okay, okay. And what's your view on the new supply in the Southern region for the balance part of fiscal '12 and fiscal '13? Now could that clearly impact pricing besides other factors?

## **Corporate Participant**

I think there is enough surplus anyway right now.

## **Jaspreet Arora**

Correct.

## **Corporate Participant**

So I personally believe that even though a few new plants are coming in.

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

They are at least in Tamil Nadu, it is by Madras Cement and Chettinad Cement.

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

So they have existing stake in this area.

## **Jaspreet Arora**

Right.

## **Corporate Participant**

I expect them to remain quite different. In Andhra Pradesh, we see two new entrants, which is JSW and JP.

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

That are going to commission during the later part of this year, this fiscal year...

## **Jaspreet Arora**

Okay.

## **Corporate Participant**

Calendar year. And I think it remains to be seen on who those new players adapt to the market and their behavior whether it's irrational or rational. So, I think I am continue -- 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 4 million tonnes each, if I am...

## **Corporate Participant**

Yes. Approximately.

## **Jaspreet Arora**

And, is this also going to be hitting like around in the same time as JP and JSW?

## **Corporate Participant**

I think, 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 CY12?

## **Corporate Participant**

June to October July to October quarter -- July to September quarter, sorry.

## **Jaspreet Arora**

So this is current year, right? 2011?

## **Corporate Participant**

Yeah, yeah.

## **Jaspreet Arora**

Okay, okay. And just one last thing. Turning from the current prices, how have they moved vis-à-vis the last quarter and what's your outlook on that in the next six to nine months?

## **Corporate Participant**

I think the prices have been holding quite steady. There may have been a marginal uptick because fourth quarter is a very robust quarter in terms of demand as compared to the rest of the year. And I have always maintained and my view is still the same. My

outlook on pricing is very cautious. I think there is a lot of surplus in the industry.

**Jaspreet Arora**

Okay.

**Corporate Participant**

But the demand growth is not very encouraging at the moment. So, I continue to hold a very cautious outlook on price.

**Jaspreet Arora**

Okay, okay, okay fine, I will get within -- again. Thank you so much.

**Corporate Participant**

Thanks.

**Operator**

Thank you. The next question is from the line of Salil Desai from IDFC Securities. Please go ahead.

**Salil Desai**

Hi. Sir on your expansion greenfield expansion when do you expect to have some more clearer idea on when you can proceed?

**Corporate Participant**

Next earnings call.

**Salil Desai**

Definitely.

**Corporate Participant**

Surely.

**Salil Desai**

And I think last time we met in the analyst meet you gave an indication that one of the first projects that you will start with would be the Meghalaya. But does that still stand or you are still evaluating this project to...

**Corporate Participant**

As I told you, I will give you more visibility on the next earnings call.

**Salil Desai**

Okay, sir. Thank you very much.

## **Operator**

Thank you. [Operator Instructions]. The next question is from the line of Rajesh Ravi from Karvy Stock Broking. Please go ahead.

## **Rajesh Ravi**

Yeah, good evening sir.

## **Corporate Participant**

Yeah, hi Rajesh.

## **Rajesh Ravi**

Yeah, hi. Sir would you just explain again what sort of price discipline are we talking of because it's almost now if you talk of only the certain markets, it's more than nine months. Now isn't that the larger players from the ones we had initiated the price discipline and they had to see their market share decline over this period. So do you believe that this price discipline can hold on when the smaller players try to ramp up your capacities, operated higher capacities on the level of players' feedback on what's their market share getting --?

## **Corporate Participant**

I think as I said there is a lot of surplus in the industry and my outlook on pricing is cautious.

## **Analyst**

Okay.

## **Corporate Participant**

I personally believe that in terms of good demand which is not monsoon, prices visibly go up. There has also been some cost pressures on the fuel price.

## **Rajesh Ravi**

Right.

## **Corporate Participant**

Cost pressures have been passed on. I think it's none of my business to comment on who will behave what because...

## **Rajesh Ravi**

Right.

## **Corporate Participant**

Feel independent in terms of decision making. So we are seeing reasonably good demand in Tamil Nadu as there we have most of our exposure.

## **Rajesh Ravi**

Okay.

## **Corporate Participant**

I think weak demand in Andhra Pradesh.

## **Rajesh Ravi**

Right.

## **Corporate Participant**

Which is where we have now one-fourth of our exposure.

## **Rajesh Ravi**

Okay.

## **Corporate Participant**

And 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 to 24 months.

## **Rajesh Ravi**

Okay. And would that includes the cautious outlook that you are maintaining also during the cost which in terms of primarily is coal cost. What's your view on that like what sort of escalation factoring in FY12?

## **Corporate Participant**

I give there is escalation all around. Fairly the coal costs have moved up, diesel prices have moved up which affects our transportation cost, the SG&A. This is a increment time, expected 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 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**

And just one last question on the capacities. What sort of capacities do you estimate in FY12 to the other in India and in the southern markets, if you have any numbers that you hold there?

## **Corporate Participant**

Yeah, I think broadly in FY12 we think around somewhere between 30 to 35 million tonnes will get added.

## **Rajesh Ravi**

Okay.

## **Corporate Participant**

FY13 may be somewhere around 15 to 20 million that will get added.

**Rajesh Ravi**

Okay. And South India or?

**Corporate Participant**

South for us around 15 million tonne in FY12.

**Rajesh Ravi**

Okay.

**Corporate Participant**

And maybe around -- maybe somewhere between 7 to 9 million tonne in the FY13.

**Rajesh Ravi**

Okay.

**Corporate Participant**

And 7 to 10 contained in the financial .

**Rajesh Ravi**

Okay, okay. Thank you so much for taking my questions.

**Corporate Participant**

Yeah.

**Rajesh Ravi**

I will come back if I have more. Thank you so much.

**Operator**

Thank you. [Operator Instructions]. Next question is from the line of Ritu Modi from Ambit Capital. Please go ahead.

**Ritu Modi**

Hello sir. Thank you for taking my question I just want to know how is the demand in terms of I mean how were your housing and the infrastructure activities going on in the south. As you said there is a weak demand in Andhra Pradesh but do you expect that it would go it would increase in the coming like six to 12 months. And second question is how much of your dispatch goes through the institutional buyers and how much would go to the retail dealer.

**Corporate Participant**

Sure. On the infra side I think in Andhra Pradesh virtually all infra projects have come to a standstill. I was talking to a few construction companies and they were saying the government is very slow in its decision making and also the financial condition of

the government is also not very encouraging. So their payments are getting delayed.

## **Ritu Modi**

Okay.

## **Corporate Participant**

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 we see the recent outcome of the by-elections over there, it further strengthens the other camps. We will have to see how eventual situation pays off. In terms of outlook there is some growth but it's not something which is very high.

If I look at Tamil Nadu, last year the growth has been around 6% but first month has also been better than the rest of this year. And I think as I said I expect a positive outlook in Tamil Nadu. With what the Chief Minister had signaled in her swearing in ceremony. It's quite early days.

## **Ritu Modi**

Okay. And Sir how much would last year, what was your contribution on B2B institutional buyers and how much percentage is just give me a rough idea?

## **Corporate Participant**

I think it's roughly two-third, one-third. Two-third retail, one third institutional.

## **Ritu Modi**

Okay. Thank you, so much.

## **Operator**

Thank you. The next question is from the line of Amit Shrivastav from Securities. Please go ahead.

## **Analyst**

Good evening, sir.

## **Corporate Participant**

Yeah, hi Amit.

## **Analyst**

Yeah. Actually my question is on your markets trend. How was the trend in last one year like in your prime market like Tamil Nadu, Kerala, how is the trend in the markets there?

## **Corporate Participant**

I think we gained market share in all the states that operate in. In Tamil Nadu, we have gained about two to three percentage points...

## **Analyst**

[Question Inaudible].

## **Corporate Participant**

And it's about 13%.

## **Analyst**

Okay.

## **Puneet Dalmia, Managing Director**

And if I look at our volume growth, it's been growing at about two times

## **Analyst**

Right.

## **Corporate Participant**

For the last five years.

## **Analyst**

I am looking at in a last one year how would be the trend?

## **Corporate Participant**

Last one year, I think the overall volume growth rate for Dalmia was about 14%.

## **Analyst**

Yeah.

## **Corporate Participant**

Whereas the industry growth rate in South.

## **Himmi Gupta, Senior Manager, Investor Relations**

It was around 3%.

## **Analyst**

But your installed capacity has increased but it's more than that?

## **Corporate Participant**

Yeah, yeah absolutely. I think it's changed, but we are realistic about a ramp up. So it's not going to happen overnight. Then it takes three years to build a new cement plant. So, we have to take call at the with a long-term view rather than with a quarter-by-quarter view when we make our investment?

## **Analyst**

So what was the capacity utilization for your new facility?

## **Corporate Participant**

It's about 60%, as I said.

## **Analyst**

60% would be a blended one, or it's for the new capacity.

## **Corporate Participant**

No, its for the blended.

## **Analyst**

All right. So for the new capacity, how much?

## **Corporate Participant**

New capacity is just 40 to 50%.

## **Analyst**

40 to 50%, okay. Next question is related to the OPC versus CPP, how would be the ?

## **Corporate Participant**

Roughly two-thirds yeah, go ahead.

## **Himmi Gupta, Senior Manager, Investor Relations**

CTP 60%, 37% is OPC and rest is special cements. Hello?

## **Analyst**

60%, is CTC, yeah?

## **Corporate Participant**

Hello?

## **Operator**

The line has been disconnected of the participant.

## **Corporate Participant**

Okay.

## **Analyst**

We will move on sir. [Operator Instructions].And there are no further questions. I would now like to hand the floor over to Mr. Sanjeev Singh for closing comments.

## **Sanjeev Singh, Centrum Broking Private Limited**

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.

## **Corporate Participant**

Thank you everybody.

## **Corporate Participant**

Thank you.

## **Operator**

Thank you.