"Dalmia Bharat Q3 FY'18 Earnings Conference Call"

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Moderator: Good Day, ladies and gentlemen, and welcome to the Q3 FY'18 Conference Call of Dalmia Bharat hosted by PhillipCapital (India) Private Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you Mr. Agarwal.

Vaibhav Agarwal: Thank you, Margaret. Good Morning, everyone. On behalf of PhillipCapital (India) Private Limited we welcome you to the Q3 FY'18 Call of Dalmia Bharat. On the call we have with us the entire senior management team of Dalmia Bharat.

Management: Thanks a lot. Good Morning, Ladies and Gentlemen. We welcome you on the Q3 & 9 Months ended Earnings Call. I have with me on the call Mr. Mahendra Singhi -- Group CEO, Cements; Mr. Jayesh Doshi - Group CFO, and Ms. Reena Bhasin – Head, Strategy and M&A.

Management: Thanks all well wishers for joining us. Happy Morning to you all. Let me first appraise you of certain developments -- One major development has been that shareholders of Dalmia have unanimously approved Scheme of Arrangement and Amalgamation of Dalmia Bharat Limited and Odisha Cement Limited with 100% votes casted in favor of the scheme. This brings us one step closer to our objective of simplifying the group structure and creating one listed entity. We expect that this restructuring to get completed in next three months, so this will see a very simplified structure of our company, one holding company and one operating company.

Friends, the third quarter, it has been very interesting quarter in reference of cost impact as well as special pricing, but at the same time improved volumes. Our continued focus on branding and enhancing plant level efficiencies have definitely provided the relief to our operations.

Our total income for the quarter has been up by 13% on YoY basis, and 6% on QoQ basis, the sales volume has been up by 16% to 4.15 MnT from 3.57 MnT and 4.15 MnT from 3.64 MnT (14%) up on QoQ basis. We have been able to maintain our benchmark to outperform the industry growth; for nine months our volumes are up by 10% and our EBITDA for the quarter is now Rs.455 crores, which is higher by 10% for the quarter on YoY basis. EBITDA has been Rs. 1,073/ton and when we talk of EBITDA of nine months YTD basis, this is Rs. 1,229/ton.

During the quarter the variable cost has inched upwards and cost per ton was up by 21% on YoY basis on account of mainly rising pet coke cost and slag cost, but the better part is the same has been partly offset by absorption of fixed cost due to improved sales volume. The fixed cost on per ton basis has witnessed reduction of 12% on YoY basis.

Friends, freight cost has remained flat on YoY basis despite rising diesel cost. This has been possible on account of few rasons:

1. Benefit of retention drive.
2. GST implementation.
3. reduction in our lead distance and it is now around 270 Kms.

The better part of the quarter as per our goal is that our improved cash flow has helped us to reduce our gross debt by around Rs.230 crores and net debt by Rs.323 crores on QoQ basis. Our gross debt stands at Rs.7,321 crores and net debt at Rs.3,367 crores. Now our net debt-to-EBITDA is 2, and the cost of debt has been reduced to 8%.

Now, let me talk on Demand and Supply Scenario: East region where housing shortage is highest, is working on affordable housing in a big way and East region has grown by 80% on YoY basis and 20% basis on nine months basis. For the last quarter, the South has grown by 5% and for nine months it has been flat, but, of course, this indicates that there has been revival in cement demand, in south and more particularly, in Andhra and Telangana; Andhra and Telangana has seen a healthy growth of 20% for the quarter. Karnataka grew by 11%. Maharashtra cement has also been on upsurge for the last two quarters and has seen 16% growth on YoY basis. Northeast has also witnessed healthy demand growth by 19% for the quarter and 11% on YTD basis. Still in the states, Tamil Nadu and Bihar, they are still grumbling with sand mining issues, and which has seen weak demand, but of course it is slowly winning and thanks to now the availability of alternate sand, which is an M Sand, which is getting acceptability in Tamil Nadu, and things are also now getting sorted out in Bihar and UP also.

We are quite positive on the outlook for Cement industry, and we feel that now slowly-slowly supply would be lower and demand would be higher in a few years to come. Demand is expected to grow at 7-8% CAGR in next five years and supply may be limited to only 4%. We are, as a company, which is located in East, South and Northeast, so we are very strategically located on account of infrastructure work going on housing projects, and the demand which is expected to grow.

Now, let me also share with you about a few developments on “Acquisition and Capability Announcement.” We are taking sincere efforts to create value in the government and banks more to revitalize idle assets and idle companies. With our deep understanding of mining operations, sales and management, we were able to identify two strategic assets for us in new markets and the strategic markets. I am happy to share that with the specific commitment of government to support revival of assets, we have been able to successfully get Kalyanpur Cement Limited, which is 1.1 mt, only integrated cement unit based in Bihar. This has been a unit which has been operative till August last year, and because of working capital problems and few other problems, this unit was facing problem, it came to NCLT… when we participated in the bid, there was fierce competition also, but we have been able to acquire this company at right price and it should help us in extending our market in Bihar. Basically, we have been able to get commitment one from the government regarding incentives and mining lease, and at the same time, we have been also able to see that this area is a limestone area and we should be able to get right quantity of limestone in years to come, and this should be a good strategic investment for us.

By the way, let me also share with you that this is the first cement asset in IBC process. Secondly, we were also looking at any asset in Maharashtra Vidarbha area, and now the Murli Industries Limited, which is based in Chandrapur in Vidarbha area which is now a growing demand area for cement, we have been able to get Murli Industries Limited, which is a 3 mt cement plant, and strategically located, it has also been acquired at a very reasonable cost, so that with all new CAPEX, this will be good strategic asset and we will be able to have our market in working area of part of Maharashtra. Now, both the units they are having good possibility of limestone, and we will be able to secure limestone also as well as the incentives also, and we are quite hopeful that these two investments we will be able to strategically develop good capabilities and within one year of operations they all should start making good EBITDA profits, and we are quite hopeful that with the experience of our committed team we should be able to revitalize the asset, we should be able to revive the economy of the area also. Friends, we have invested in developing capabilities, and now we are future-ready to be an important partner in India's growth.

Lastly let me recommit that we are committed towards becoming a leader in building materials and also to evoke pride in all stakeholders through innovation, sustainability, profitability and values. So this is just broadly I wanted to share with my team, and will be too happy to answer your right questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: My first question is with respect to strategic acquisition. Is it possible to elaborate both on Murli and Kalyanpur as to by when can you expect this acquisition to complete, and what is the potential of margin improvement and Brownfield expansion in both these assets?

Management: Kalyanpur acquisition get completed in all processes may be in next three months' time, and Murli may get completed in four to six months' time. Both Murli and Kalyanpur have the capability to produce 3 mt and 1.1 mt respectively, and we expect that yes, we should be able to revitalize these assets, and they will be EBITDA-positive by first year itself. Once we take over these we fully use these assets then we can think of some expansion also, but at the same time, at the moment, we are in totality 4.1 mt cement capability.

Sumangal Nevatia: Secondly, we have been deleveraging quite impressively, but also at the same time we are in the race of other inorganic opportunities like Binani, etc., which could be of significant quantum. So, what is the comfort range for the management in terms of leverage if I look from two to three-years perspective?

Management: I think we embarked on this commitment and journey of deleveraging, on QoQ, month-on-month, deleveraged our businesses in a manner in that the balance sheet is far more stronger and sustainable for the next phase of growth. Rest assured that whether we acquire Kalyanpur or Murli, or whatever participation as and when it happens for the other assets available, we will ensure a very strict adherence to the benchmark debt-EBITDA and we have our internal views on that we would not like, not that it is a commitment, but from my side, or from our side of the management, we would not like to go beyond a number 3.5x of debt-EBITDA, may be it happens for a little shorter period of time, we will endeavor to bring it down because the cash flows are sustainable, cash flows which we are generating year-on-year, I think it is the right time for the company to really look at all possible growth options at a price which we think is very reasonable and fair.

Moderator: Thank you. We move to our next question which is from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Just a question on Murli. I understand that we have laid some conditions in front of NCLT before we go ahead and acquire this asset with regards to limestone. Can you throw some light on what these conditions are and what is the status of this?

Management: There are two conditions -- One is with regard to incentive, and second is with regard to limestone, so limestone mines will get reinstated, and then definitely, we will be comfortable in operating the plant with full capacity.

Rajesh Lachhani: Regarding the life of limestone, what is the resource base we have there and what will be the cost of getting it to our plant?

Management: It will have enough limestone, because one, this whole area is limestone bearing area and already there are few mines available there as well as few mines are also in queue. So with that we will be able to procure limestone at a reasonable cost.

Moderator: Thank you. The next question which from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Just a follow up on these two NCLT transactions. Is there any scope for expansion in the existing assets? Also on the limestone, if you could just confirm that the limestone which we got with Murli, will that be sufficient or you will have to go and bid in the auctions which come from the government?

Management: First, as far as expansion is concerned, we have enough land in both the areas. So, as and when required, expansion can be done. Now, with regard to limestone, in Murli, there is enough limestone, and we will able to operate the plant fully.

Gunjan Prithyani: You need not to go and participate in any auctions, let us say to get more visibility on the limestone for these assets?

Management: As and when auction comes also, and if it is near to our plant, then definitely we would go for expansion because for a cement company it is always desirable to buildup limestone reserves.

Gunjan Prithyani: Let me just rephrase this; maybe I just want to get a sense on how much of the limestone you got with this bid that will last you 15-years, 20-years, what timeframe?

Management: It should last for 20-years, but at the same time when we are able to optimize raw materials, we are able to use pet coke and the life can go further also.

Gunjan Prithyani: Now that we have got these two transactions with us and we will take about a year to stabilize these and you are also working on Binani as per the press reports. Is there any change to your organic growth plan in the East which we were speaking about over the last two calls?

Management: That process will also go on, because we have to grow to create value for all our shareholders as well as our all stakeholders, and at the same time we have all the abilities and capabilities.

Management: I just want to add one thing that Kalyanpur Cement, we have received the NCLT approval, the NCLT approval of Murli is yet to come. So, once it comes, it will be formally ours…just wanted to have that minor technical correction.

Gunjan Prithyani: In East it is about 4 mt additionally right on the existing assets?

Management: That may be 3 million at clinker plant, that is related to cement capability.

Gunjan Prithyani: Debottlenecking of 1 mt, that is already ongoing?

Management: Yes, you are right.

Gunjan Prithyani: Can you give us the pricing trends for your core market because you seem to have faired reasonably well versus the peers on your realizations. So any sense on marketwise trends would be good?

Management: Cement prices, like in East now, we are seeing somewhat betterment, in South, one or two states it is stable, one or two states it is volatile, one or two states prices have inched up on account of better demand like Andhra, Telangana. Northeast demand is growing and there are lot of infrastructure projects now which are gearing up, so prices are better now. But, at the same time, prices are better also on account of certain cost increases also.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Would it be possible for you to quantify the terms of transactions specifically for Kalyanpur Cement -- what is the proceeds that we paid for it. Against this 1.1 mt of cement, how much is the clinker capacity which is backed and does it have any incentives along with that?

Management: Last question first, yes, it has incentive and seven years incentive which will be received by us from the government. Second, in totality, let me share with you that with all CAPEX which will be required for reviving it the cost would be about $40/ton.

Ritesh Shah: This is including the initial amount that you would be paying?

Management: Yes, 0.7 mt clinker and 1.1 mt cement.

Ritesh Shah: What is the incentive quantum, you said 7 years, so how is it based, it is a function of what sir?

Management: It is function of whatever GST you are able to collect that you get 80% of its benefit, and there is no limit as such. So, it all depends on how much you are able to sell.

Ritesh Shah: My second question is on the incentives that Dalmia Bharat and OCL level. If you could please provide some colour like what the number is right now and by when this will get extinguished. So, obviously, we have put up new capacities in East and we will have some incentives at Murli, so there will be some offset which would be available. If you could provide some color on the numbers over here it will be very useful?

Management: One, incentives would continue and every year incentives would accrue because we have a new plant of Bengal also and then new incentives in Northeast and all these, so incentives would continue, this will not majorly impact anywhere on our profitability.

Ritesh Shah: Is it fair to conclude that Rs.400 crores of incentives which is there published in the annual report for Dalmia Bharat, it is around 220 crores for OCL, so at Dalmia Bharat level, will it continue post-2020 as well.

Management: Incentives would vary from time-to-time looking to from where sales happens, and when the incentive ends at one place and start at second place, because we have incentives available at our Rajgangpur also and Bengal unit also, in KCL in Karnataka unit also. It may be difficult to quantify exactly, but then yes, it will not impact in a major way for our group as such.

Ritesh Shah: If you could please highlight our CAPEX plans and incremental expansion that we are looking at, how should we look at it?

Management: One, these two major CAPEX plans which we have already discussed with your friends, which is about Kalyanpur and Murli. Secondly, now, we are in the process to take all the regulatory approvals in regard to expansion of our East plant, and then the major CAPEX definitely would be in the last quarter of next year or afterwards only as far as East is concerned. For normal capacities, there will not be much variation.

Ritesh Shah: What is the CAPEX number we should go?

Management: Next year we should look at full Kalyanpur CAPEX, including Murli a little part, I think next year I would not take CAPEX of more than about Rs.350-400 crores all put together with Kalyanpur as well as Murli apart from the other maintenance.

Moderator: Thank you. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: My first question is regarding OCL merger timeline. Is it expected to conclude by March '18 in line with previous expectation?

Management: Yes, it will happen, so our all yearly results will be with this merger.

Pratik Kumar: Regarding this outstanding subsidy which was mentioned in the previous question of around Rs.350–400 crores we have, have we received anything in Northeast recently from government?

Management: Yes, some amount has been received and balance is expected in these two months. We have a specific commitment also again from the government that in East as well as in Northeast we will be able to receive good sum of money.

Pratik Kumar: Jayesh mentioned about this Rs.350-400 crores incremental CAPEX on revising the acquired assets. So, total let us say it would be Rs.800-900 crores for 4 mt what we have acquired?

Management: Yes, about Rs.800 crores for the entire 4.1 mt

Pratik Kumar: Are there any other NCLT assets in cement sector which are there on sale, the sites running now?

Management: At the moment, we are not aware, but whenever you come to know, please advise us.

Pratik Kumar: Last question on this refractory business. Are there any traction in that business because there was some improvement in growth there versus trend line number in the past?

Management: I think what happened was the raw material prices volatility has also helped the Refractory business substantially this time, and that is why we were able to do it. Though the revival is still a little distance future away because of the conditions of the cement and steel plants, so I would not ascribe large consistency of profit will start happening in refractory probably breakeven would be a better way to look at refractory business for at least a couple of quarters.

Moderator: Thank you. The next question is from the line of Ayush Sharma from Investec Capital. Please go ahead.

Ayush Sharma: Is it possible to share the production numbers for cement and clinker for this quarter?

Management: Production we do not share, production is more or less, as dispatches or sales, 4.1, in clinker we will give you offline.

Ayush Sharma: Can we have Cement-to-Clinker ratio?

Management: 1.65 something.

Ayush Sharma: Just to have follow-up question; when you mentioned East addition, it is another plant or Murli is indicating this only.

Management: We have been exporting of possibility of putting up Line-III Brownfield expansion in Odisha, that was the reference.

Moderator: Thank you. We will take the next question from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

S. Rajpurohit: Sir, just one question is that in South and East in QoQ we have seen most of the companies reporting fall in their realization. What has helped us in very strong realization it was tabled QoQ?

Management: One is our better brand, then import focus on logistics also, as well as in focus basket also.

S. Rajpurohit: The QoQ other income per ton has gone up. Any particular item there?

Management: Last time also we said that the packing materials is a little higher and last quarter consistency we said that it was probably one-off. So I think the consistent number is to be taken is probably around this level what you are seeing now.

S. Rajpurohit: Does the high cost of material say there has been an increase in the sourcing of Clinker?

Management: To some extent, yes.

Moderator: Thank you. We will take the next question from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: This Murli Industries, you have bought paper and solvent extraction unit also. So, will you dispose off it?

Management: We will explore the possibilities of both that how it can give us a good value.

Ravi Naredi: Right now you have not planned to sell it off, right?

Management: Once let order comes and then we will decide what used to be done but then yes, this can give us good value.

Ravi Naredi: This concall recording you never give. What is the problem sir because we need for future reference and everything, so I think…?

Management: I will revert back to you.

Moderator: Thank you. We will take the next question from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: First question is about the regional mix of your sales right now. If you could help us understand the first nine months in this quarter, how much is East, Northeast, South and West?

Management: We do not give regional breakup of volume.

Management: I think last time also we said that we would like to avoid giving regional breakup and we would like to stick to that.

Nitin Bhasin: If we look at the raw material cost, somebody has also asked recently. So can you explain sir why are Slag prices going up and what is the component of Slag in your total raw material today in terms of ballpark percentage?

Management: Seven-eight months back, somehow this demand that increase of Slag because of some exports to Bangladesh and Nepal as well as few more cement companies having started manufacturing more Slag Cement and secondly earlier there was good stock of Slag with steel companies, so on that account prices had not gone up. So mix of many things have resulted into increase in Slag prices but now since last three, four months, broadly both Slag prices have stabilized, but of course, they are at a higher level.

Nitin Bhasin: Any sense like YoY what was the absolute price of Slag procured versus today; just to get roughly your indication in terms of is it like 300 gone to 600?

Management: Gone up from 650 to a number of 1100.

Nitin Bhasin: My second question would be around the Kalyanpur acquisition right now, we hear that there are certain issues around the mine of the asset in terms of a lot of it was used or secondly there was some sort of litigation around that because the clearance has come through, could you help us understand exactly how will the limestone be revived over there because something about wild life issues over there, etc., if you could help us understand that?

Management: Yes, there are certain limestone mines which are very clear and that will get revived immediately which have no forest land issue or wild life issue. Second, there are certain mines which may be available to us in time to come which might be having some legal problem. The best part of this whole acquisition is that the commitment from state government to support this revival and secondly few limestone mines would be coming to us, then only this whole plant will start and that is why there is no uncertainty and I think based on that no uncertainty three other cement plants also give the bid.

Management: Just to add, with this no uncertainty at least there is enough limestone, without anything on the litigated thing is to last us 12-15-years depending upon our efficiencies from the time we start producing.

Nitin Bhasin: We have been in a mess because of the limestone mine was not cleared, we have very small mines, we are working on them and because of which we are not able to produce enough profits in the annual report is what Kalyanpur mentioned last time.

Management: Yes, they were right and there were certain deficiencies maybe in management or maybe in any matter, that account only this case was referred to IBC and having understood this problem, government also came to the rescue of the company and now the government has committed that they will be able to revive whatever other works are also there, but as far as the two mines, etc., is concerned, that will be with us and we will start our plant. So all new friends, please do not have concern about mining lease or limestone deposit and all these because our knowledgeable team has already seen it and along with us like I said in Kalyanpur three other cement plants have also seen that there is a possibility of getting limestone and that is why also they give the bid.

Management: Please be rest assured the genesis and the basis of our any acquisition has to be limestone and we will definitely ensure that the base and the foundation is there for these acquisitions to be successful.

Nitin Bhasin: Just closing on this one; if we look at the balance sheet of Kalyanpur it says that the total payable outstanding is closer to Rs.650-670 crores, of which there are a large sum of money to be paid to the government also for statutory dues. So the exact acquisition cost that you are paying for it is how much and roughly about Rs.350-400 crores, but who is taking the haircut here, just trying to understand, -- is it the banks, is it the statutory government?

Management: All of them are taking haircut. In a resolution plan, you have to submit what we would like to pay and once it is approved on the list, there is a financial creditor, there is a unsecured financial creditor, there are other operational creditors, and there are employees dues and statutory dues. When we give a resolution plan, you have to give the entire thing or what kind of percentage. Once it is approved by NCLT, the entire thing gets frozen, it is like as if it starts a new chapter and all the past things are just over because it is within and under the ambit of the High Court legal structure. As far as what we are paying is the total value, also is about Rs.353 crores which we have bid and upfront payment is only about Rs.120 crores, the balance is linked to the incentives received. So the net impact as Mr. Singhi earlier mentioned is just $40/ton. So we are very clear in the resolution plan submitted in how the payments will happen and how it will be effective.

Management: Many payments are staggered one and another silver lining is that whether operational creditors, whether it is the government, whether it is the workers, they all were interested in reviving this unit, so whatever now the order which has come from NCLT, I think that will acceptable to everybody and we will be able to revive the unit and the economy there.

Moderator: Thank you. We will take the next question from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: I know this question has been discussed extensively on the call but if you could just in summary just tell us, just wanted to understand for each of the two plants, how much are we paying for the resolution plan, etc., and how much will be required to revive the plants to make them operational essentially like what is the net amount required?

Management: When I talk of Murli, the total amount payable is Rs.401 crores but then that is in a deferred way and at the same time it may need Rs.300 crores plus CAPEX in phases, so in totality that would be the cost for 3 MT plant which you can understand and a little bit working capital. In regard to Kalyanpur Cement, in totality, it is Rs.353 crores but then against that payments are in deferred way and at the same time Rs.250 crores incentive is to be also availed from GST. The CAPEX required would also be in the range of about Rs.100 crores. So that would also be done in two to three phases.

Management: All these numbers are from Murli's excluding the incentives.

Management: In Murli, the incentive available is for 12-years.

Madhav Marda: Any broad idea about profitability of these plants or we can bring them to the level at which Dalmia operates eventually, how should we think about that?

Management: Yes, I think by end of second year, they all would be in the Dalmia category and one plant may outperform also.

Moderator: Thank you. We will take the next question from the line of Akshat Gandhi from Kotak Mutual Fund. Please go ahead.

Akshat Gandhi: A couple of questions; the first one you talk about some Brownfield expansion in Odisha which was of around 3 mt. When do we plan to start that?

Management: At the moment, we are in the process of taking regulatory approval. So, the environment clearance for putting up clinkerization plant in Odisha has already come. Now, we are looking at other approvals from mines, as well as some land for setting up grinding unit. We also received approvals to put a Brownfield expansion in two places in Bengal and Odisha. So it is quite possible that maybe two quarters or three quarters we should be able to start operations of putting up the plant.

Akshat Gandhi: Just an indicative if possible, some number for what kind of investments we will require to bring up this 3 mt cement and supported clinker?

Management: We are at the moment in the finalization stage and maybe when we have next time concall we may be able to share the numbers.

Akshat Gandhi: Two questions; one is in the last 12-months that is FY'17, our sales tax incentive was Rs.388 crores as per annual report. If you can just share what was the incentive booked in the last nine months for us overall at the consolidated level?

Management: In offline we will share with you the numbers.

Akshat Gandhi: Post the OCL merger, will we continue giving the OCL number separately or then we will discontinue?

Management: There will be no accounts because there will be no existence of the company. From FY'18 and next quarter we expect to give you one result because we expect that everything should get sanctioned from the board by March end or April because NCLT convened approval and thank all of you investors as well as analysts who supported us and we just to mention I am sure Mr. Singhi would have mentioned that we got voted with 100% in favor including secured, unsecured and shareholders. So we are very pleased about the outcome of this and we can ensure to stay committed for this but for FY'18 we will have one accounts.

Management: Earlier, we were being advised that we should have one company. So we have done that activity. So, you now have one number. Thank you.

Moderator: Thank you. We will take the next question from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani: Just wanted to get these numbers, right, for Murli you are paying Rs.401 crores and Rs.350 crores is the additional CAPEX and for Kalyanpur it is Rs.350 crores plus Rs.100 crores, right?

Management: Broadly in that range.

Ajit Motwani: So broadly about Rs.1200 crores for the acquired. In terms of cash outflow, how will it progress if you can throw some light?

Management: Many payments would be made in a staggered way for next seven years.

Ajit Motwani: But for the near-term let us say for next three years how is the proportion of this Rs.1200 crores in terms of outflow?

Management: I think about 65-70% would be in the next 2-2.5-years and balance would be over a period of next 3-4-years.

Ajit Motwani: In terms of sand mining issue in TN, what we heard in the press is that the Supreme Court has stayed the order which was issued by the High Court. So in terms of the legal stand, of the existing mines continue, in a sense they can produce sand as per the limits?

Management: Recently now the Supreme Court has said that since state government is administering it, so let these mining be continued and they have understood also that, otherwise this will create chaos even import cannot also support and other materials cannot also support. We are quite hopeful now that with this resolution, demand should again go up.

Ajit Motwani: If I read it correctly, the High Court order was that the new licenses should not be issued and the existing licenses or let us say mining be stopped to the next six months, so it is not that the existing mines were not producing at all, so I am saying was the demand constraint because of sand availability and hence the state seems to have seen a negative growth this year, you are saying the demand constraint or let us say the offtake was impacted by sand mining?

Management: You are right.

Moderator: Thank you. We will take the next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: Just a few questions from my side; firstly, on the Murli NCLT thing, you said there are some conditions which you put across. So is it like if those conditions are not met then this deal will fall through?

Management: You are right but at the same time whatever say understanding we got from the government those conditions would be met and we will be able to revive this unit because each and everyone is interested in reviving the idle companies.

Amit Murarka: Similarly, you mentioned the acquisition cost of Kalyanpur at $40/ton, but you did give Rs.350 crores of incentives, the number comes to be higher. So are you netting out the Rs.350 of incentives?

Management: Yes.

Amit Murarka: A similar number for Murli, all in then will be…?

Management: The difference is we are not netting out Murli and here is netted out because we have the incentives received in Kalyanpur is pegged to the outflow with the government. So that is why we have taken a net here. In Murli that is not the case, in Murli we are supposed to receive the incentives as and when we sell for the next 12-years. So we have just given an apple-to-apple comparison of how the payment will be staggered.

Amit Murarka: Regarding the volume growth in the quarter which is quite strong, but is there a split available and through how much was it from trade or how much was non-trade?

Management: 65% is trade and 35% is non-trade.

Amit Murarka: But in the quarter have you seen more acceleration because that is the feedback we are getting the infrastructure has been a big driver, so has it been the same for you as well?

Management: Even in infrastructure also the material goes also from trade because many small contractors who work for some small road projects or for some housing projects go from trade also.

Amit Murarka: But there is no lumpy item in that basically?

Management: No, there is no lumpy item.

Amit Murarka: Lastly, related to the reported results, the other expenses were up quite sharply on QoQ basis, so I believe there was somewhat maintenance shall I ….?

Management: No, one was packing material, second was refractory expenses also which was in the higher side. So both put together total. So if you remove it, it is slightly higher because of the packing materials but otherwise it is on the same sustainable basis.

Amit Murarka: Was there any maintenance related cost taken in the quarter and shut down?

Management: No, not really.

Management: It goes on, when you see the yearly number, they will not find much way.

Moderator: Thank you. We will take the next question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Just two questions; one is, is there accumulated losses and would be available for set off and if yes then what …?

Management: You are right.

Management: Now we have just got the order no from the high court.

Management: We had requested and now the material will also be available.

Bhavin Chheda: If you can share the number what are the accumulated losses of Kalyanpur and Murli separately?

Management: These numbers would be shared separately afterwards only, at the moment the process is on, so let whole process get completed and we will share the number.

Bhavin Chheda: Second thing is on the incentives number which we are getting from the government mostly in the East and the Northeast and post-GST there have been a lot of changes in terms of transportation subsidiary reimbursement as well as the state and the central GST. So can you throw some light on the status now because we are not still getting clarity from the companies what has been the refund mechanism, how much standing in the books and we understand that the states have not yet announced the refund policy, because your incentive numbers was quite large in last year, so what has been the status post-GST?

Management: Status broadly continues, there is no change as such, only change which has come which does not get covered in incentives is on GST in which state government was to bear 42% and that is also effected only in Northeast. So that clarity would come and we are hopeful that state government or central government will be also able to bear 42%, the way it has been done and order has been issued in J&K government.

Bhavin Chheda: In regard to transportation subsidy, is that continuing or scrapped, what has happened there?

Management: Transportation subsidy wherever it was applicable it is continuing.

Bhavin Chheda: State is reimbursing?

Management: That is right.

Moderator: Thank you. Due to time constraints, we will take last two questions; the next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: I just wanted a few data points; what is the current gross debt on the books?

Management: 7321.

Ronak Morjaria: What would be the cost of debt?

Management: Cost of debt is about 8%.

Ronak Morjaria: So you get some incentive, that is the reason so low or?

Management: Exactly.

Ronak Morjaria: Because 8% is low, so just trying to understand 8% at consol level, right?

Management: Lower rate of interest is because of our finance team also because of the credibility of organization also and manufacturers.

Management: There is no incentive on interest please.

Ronak Morjaria: What would be repayment cycle going ahead?

Management: What is due we would continue and as and when we see an opportunity to buy back expenses, that is what we are doing. As you have seen in this quarter we have purchased about Rs.250 crores worth of debentures, but I would not like to be here try because when you want to issue the debentures the rate is something else and when you want to buy when you have cash, the rates are different. So we have to be very clear on what kind of buyback of the debentures and debt will help but as long as that focus is very clear that we will keep on paying high cost there.

Management: Reengineering, optimization and this finance cost also goes on and that just helped us to come to this level.

Ronak Morjaria: Wanted to understand the broader picture that apart from this acquisition, the only plan is we might go for some expansion in the Eastern region whether it is Odisha region of roughly 3 mt, apart from that we are not planning any kind of expansion?

Management: At the moment, no specific proposal as such but then yes, exploratory work goes on because we are a cement group and we have to grow and we have to create our capability everywhere, so those processes are on.

Moderator: Thank you. We will take the last question from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Firstly, wanted to understand in this quarter how come our power and fuel cost on a sequential basis is down because pet coke prices were actually higher in the quarter?

Management: We have increased the usage of this domestic pet coke. So earlier the number used to be around 15%, today the number is at the group level is around 20-22%.

Management: Alternate fuel little increase also has happened.

Management: Other than that the pet coke prices in December month has softened a bit.

Ashish Jain: But is that all enough to explain the kind of price of power cost we have seen and is this a sustainable number or how should we think about this number from here on?

Management: Not sustainable, but since we have asked network detail, we will check up but otherwise, yes, there is no major variation and these are sustainable numbers.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.

Vaibhav Agarwal: Thank you. On behalf of PhillipCapital, I would like to thank the management of Dalmia Bharat for the call and also many thanks for participants who are joining for the call. Do you want to offer any closing comments sir or?

Management: We are happy with the interest all our friends, analysts they have shown in our organization and we are happy that they have been able to understand overall our business plan and overall our business prospect. So we thank them and we hope that their support would continue. Thank you.

Vaibhav Agarwal: Thank you very much, sir.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.