“Dalmia Bharat Limited Q2 FY 2020 Earnings Conference Call”

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**MODERATOR: MR. VAIBHAV AGARWAL -- PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Dalmia Bharat Q2 FY20 Conference Call, hosted by PhillipCapital (India) Private Limited. As a reminder, all participant 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 would now like to hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

**Vaibhav Agarwal:** Thank you, Stanford. Good morning, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Earnings Call for the Quarter-Ended September 2019 for Dalmia Bharat Limited. On the call we have with us Mr. Mahendra Singhi – Managing Director and CEO, Dalmia Cement Bharat Limited; Mr. Jayesh Doshi – Group CFO and Whole-time Director, Dalmia Bharat Limited; and Ms. Aditi Mittal – Head Investor Relations, Dalmia Bharat Limited. I will now hand over the floor to the management remarks which will be followed by interactive Q&A. Thank you and over to you, sir.

**Management:** Happy morning, friends. Our greetings to all of you. Thanks for taking out time for the call today, even though it's a public holiday in Maharashtra due to elections, and I am sure most of you will be going for voting. So, my best wishes to all of you for upholding democracy.

Now, let me take you through some of the highlights of the quarter and the half year FY 20. All of you are aware, friends, that cement demand across the country has been subdued, both for Q1 and Q2. And what we understand is this maybe mainly on account of general elections, liquidity issues followed by longer monsoons, floods in various states, as well as overall dip in GDP. We were expecting GDP growth of around 6.5% to 7% may be in H1, but actually it is 5% or around 5%. But of course, we are optimistic people and that's why we expect that the overall demand may grow up, though H1 it looks like for the figures which we could understand from the industry and so far reported figures of Q1 and then few companies in Q2 that there may be 2% to 4% demand de-growth for H1. We have made our best efforts to ensure that, yes, we don't dip. And I am happy to share with you our demand growth, that its almost 4% for H1 and 8% for this quarter YoY.

We believe that government's push on infrastructure development is here to continue, and that post festive season we should see a pickup in the volume. This may be also hugely driven by the affordable housing, the road construction projects where the liquid situation is expected to improve now. On the cement pricing front, there has been some volatility in our operating regions, and more particularly in east and south. And when we compared with Q1 to Q2, there has been softening of prices in East, and to some extent in South also. But since we now look forward that the demand should be stable and the demand should grow because of the festive season and then the healthy months starting from say November to March, there may be some strength in pricing and this is what we expect. We are putting all of our efforts in all our markets to increase the share of premium products in the overall product portfolio. Last month we have relaunched our Dalmia Cement brand as Dalmia Cement Future Today. And I am happy to share that it has got positive response. We are now able to show that whatever future technologies are available, our company and our brand is offering today.

In the cost side, I think there has been in general relief to the sector as a whole from particularly power and fuel side. This quarter we achieved an EBITDA of Rs. 1,039/T and for H1 it is Rs. 1,239/T. On the power and fuel side, the pet coke prices as well as the coal prices have moderated and remained stable. The benefit of low cost inventory has partly been realized this quarter, and the balance flowing in over the next quarter. The exit price for pet coke is below $80 per ton at the end of the quarter, and we expect some further betterment in the next quarter. On the raw material side, there has been reduction in the cost of slag, and we expect that to continue, which has also added to our profitability and EBITDA.

Now, moving on the balance sheet front, our repayment of gross debt for the quarter has been Rs. 218 crores. Our net debt to EBITDA at the end of quarter has been 1.55. And during H1 we have made a total repayment of more than Rs. 600 crores, which shows the strong balance sheet. During the quarter, we have received incentives of Rs. 77 crores, which adds up to Rs. 200 crores incentive for the first half. So far, we have remained on target for the incentive collection. Friends, on the Murli Industries matter where our resolution plan was approved by NCLT on 22nd July. Now, few parties, including promoters, they have filed appeal in NCLAT. And since our legal position is strong, we expect positive outcome, and we expect that maybe in a month's time it should get resolved. At the same time, simultaneously, we started working with Maharashtra government and we are quite hopeful that the restatement of mining leases as well as incentive will come in place. And we should be able to take possession of Murli in the month of December.

Our “Project Pride” which is the East capacity addition is going on in full swing, and we are on the track in terms of both completion of the project as well as the project cost. We are estimating that our clinker capacity at Rajgangpur and grinding capacity at Bengal and Bokaro should be ready by March 2020. In terms of total capacity, the capacity increase by March 2020 on this account would be 3.5 million ton. Now, Kalyanpur front, the Kalyanpur plant which we had acquired, we have been able to increase the capacity utilization to 50%, and we expect that by end of the year, March, we should be able to achieve capacity utilization of 70%. And broadly this is going as per our plan.

Now, on general Indian economy side I would say that, with respect to the economy we all welcome the biggest announcement by our honorable Finance Minister wherein she announced the reduction in corporate tax rate to 22%. The further reduction in tax rate of the new manufacturing company to 50% will also I think encourage businesses to invest more and maybe to have more business in new companies. And from our Dalmia Bharat point of view, we are examining this matter and then maybe in this quarter we would complete our action for either going for new tax regime or to continue with old regime.

In terms of boosting up the liquidity in the market, government is taking a lot of efforts. And we have seen that small businesses have been dispersed about Rs. 81,000 crores by banks during nine day Loan Mela in October. Further, Finance Minister has also announced and said that there is sufficient liquidity and efforts are being made to ensure that new payments are released to micro, small and medium enterprises, by large corporates. And another good part is that RBI has cut the repo rate and reserve repo rate by 35 basis points respectively, which should eventually benefit the loan takers.

Now on climate change matter, I would like to share with you that in view of our efforts to mitigate impact of climate change, as well as our target to become carbon negative by 2040, United Nations Secretary General had invited our company to Climate Action Summit in UN on 23rd September in New York. Friends, our company was one of the two global industries who was selected to share their action plan. And in this Climate Action Summit, 63 head of the states, presidents and prime ministers spoke and shared their action plan on climate changes. We are very happy that our efforts to bring down carbon footprints as well as to bring up the profitability vis-à-vis the carbon footprint has got global recognition. And now we have been also made one of the global leaders to lead industry transition for low carbon footprints. We are continuing our efforts to have the lowest carbon footprint in global cement world, and working on philosophy of ‘clean and green is profitable and sustainable’.

Now, before I hand over the call to Jayesh, I would like to mention with regards to mutual fund fraud case. The investigation is still going on by SEBI and EOW. And the progress is quite satisfactory from our point of view and we are quite positive that maybe in six to nine months' time we should be able to recover our mutual fund units. And of course, whenever any development takes place, we will definitely share with you.

So, I look forward for your questions so that we can satisfy with our answers. And now I would request Mr. Jayesh to share his insight. Thank you.

**Management:** Good morning, everybody. I think, overall, Mr. Singhi explained the position of the company. I just want to add a couple of things is that our commitment to reduction of debt and repayment of the debt continues. Despite our spent on the CAPEX. We continue to utilize the cash available for the repayment of the debt as well as the utilization of the CAPEX. And we will endeavor that we use as much of cash as possible and which is being generated to ensure that we continue our journey which we started three years back of reduction of debt, and maintaining the strength of the balance sheet, despite the 50% capacity growth which we are talking about. That's all I wanted to add from my side. And we continue all endeavors as Mr. Singhi has very correctly and nicely mentioned. But I would like to add that we were the only cement company who had been actually invited where Mr. Singhi spoke at the United Nations General Assembly. And he described that there were 63 heads of state, and we are passionately working towards ensuring lowest carbon footprint and we will put our all efforts to add into this green cement as we call it, by ensuring maximum alternate fuel requirement as well as solar power as well as WHRS. With that, I would now request participants to ask questions, if any. 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 Nivetia from Kotak Securities. Please go ahead.

**Sumangal Nivetia:** Sir, first on the industry you mentioned 3% to 4% volume decline in the first half, whereas we have done exceptionally good in terms of 8% growth. Whereas, even our realization has been a bit weaker than what we expected. So, increase in volume looks like has come at the expense of weaker prices. So, is there any change in strategy, change in trade mix, something which you would like to elaborate which has happened in the second quarter?

**Management:** Okay. So, one, there has been a change in the strategy, which is that further to push up our premium products and slowly relying on our brand, I think we have been able to get better volume. Secondly, because of our volume there has not been any pressure, but at the same time since our larger volume also comes from East which saw price drop, and on that account there has been a drop in NCR, but otherwise as far as we are concerned we are able to get the better value for brand and we expect better results also.

**Sumangal Nivetia:** Sir, the volume geographical mix changed significantly during the quarter?

**Management:** No, not much.

**Sumangal Nivetia:** Okay. I understand. Secondly, on the raw material cost, can we say that large part of the benefit of slag price reduction is already witnessed or do you expect further deceleration in the slag prices?

**Management:** Yes, to some extent it will come.

**Sumangal Nivetia:** Okay. So, spot prices are still weaker than what the average was?

**Management:** Yes.

**Sumangal Nivetia:** Okay. And in terms of fly ash, YoY it's almost Rs. 100 increase, from Rs. 780 to Rs. 880, so is this a real increase or some change in accounting policy or reporting policy?

**Management:** I may have to come back on this, maybe in five minutes time I will come back.

**Sumangal Nivetia:** Okay. And one last question, Jayesh, is it possible to break up the treasury in terms of investments in quoted, unquoted and some details there?

**Management:** Sure. I mean, most of our investment, except the shares of IEX, Ramco, which is in the Dalmia Bharat, all the investments are in mutual funds, and or bonds, or CDs of the short-terms of AAA companies. So, I would still break it up into quoted and unquoted, but we usually do that, not a problem. I will give it to you offline.

**Sumangal Nivetia:** Okay, all right. And is there any target to reduce this further or this this level should continue?

**Management:** See, the question is not that we have taken any specific target, the feedback from all the investors was that we should have as much less cash as possible. And that's what we are actually pursuing. Today if you see, my investments of the treasury, about Rs. 1,100 crores is in Dalmia Bharat, and about Rs. 850 crores to Rs. 900 crores is in DCBL, of which Rs. 350 crores is frozen in any case. So, we have reduced from a Rs. 3,200 crores to about Rs. 2,000 crores levels. I am not saying that I would not go to Rs. 1,500 crores or Rs. 1,800 crores, of course, depending upon how the market influx is and how the situation is, but we would like to at least keep some amount for treasury. But the point of the investors and feedback is very clearly taken that anything below which we believe that we can repay and still be flexible to ensure that the next six months or next one years of principal payment is there with me, I would continue to hold that kind of treasury.

**Management:** And in regard to this fly ash, there has been two exceptions. One, in one of the South plant there was a closure of the power plant from where we were sourcing fly ash, and for that reason then we had to get fly ash from some further distance. So, that is one. And second, Kalyanpur, this DDSPL, so there are so now we have started using fly ash. So, on that account also there has been an increase in cost of fly ash. And in time to come we expect the fly ash cost to be around Rs. 750 to Rs. 800.

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

**Ritesh Shah:** Sir, how should we look at our investment in IEX going forward? Like, is it core to the business or we will look to dispose it off at some point of time?

**Management:** I think we are still discussing on what we want to look at IEX. IEX was purchased as a strategic equity investment, because we believe there was a lot of value. We have got feedback that we need to come out a little more clearly on what we want to do with the IEX. We are yet to decide on how we want to deal it. But as of currently, we should consider that it is continuing to stay.

Maybe in a couple of quarters, by March 2020, we would be able to give a little more clarity on IEX divestment.

**Ritesh Shah:** Okay, that's helpful. Sir secondly, how do we look at our expansion strategy? We have nearly 7 million tons coming up in Eastern India, are we open to look at inorganic, there are several assets lined up, there were news flow also which was there, there was a clarification also issued by Dalmia. Sir, what should we make of this?

**Management:** You know, like in East because of our expansion we will have sufficient capacity. And that's why, at the moment it doesn't look like that any new acquisition may make sense. But at the same time, we do look at any proposal which comes in, so as to find out if there is any business opportunity.

**Ritesh Shah:** Sir, if I may ask, like what is the balance sheet ratio that we will look at? So, even if we have to go for something inorganic, will make sure that our leverage doesn't go beyond a certain point. So, do we have any leverage ratio, net debt to EBITDA, net debt to equity in mind beyond which we won't go?

**Management:** Yes, internally we have. And as and when any proposal comes, then in those circumstances we look at the points. But then yes, we can assure you that we will have sound balance sheet.

**Ritesh Shah:** Sir, any numbers you can quantify, please, over here?

**Management:** Difficult.

**Ritesh Shah:** Okay. Sir, third question, earlier we had spoken about restructuring operations on refractory and other things. Sir, any progress on this front?

**Management:** Yes, let me brief you, on the refractory business we are very closely looking at divesting refractory business and consolidating it as a separate business unit. Probably in next one month's time, next quarter we will get some information on that aspect.

**Ritesh Shah:** That's very helpful. And sir last question, you did indicate on AFR, solar and WHRS, sir do we have any quantifiable targets over here, say over next one year or two year?

**Management:** Yes. We have targets for next five years also, and at the same time slowly and slowly the use of green fuel and green material is going up. And we expect that by March end we should be able to reach green fuel up to 10%, which at the moment we are in second quarter 5.5%.

**Ritesh Shah:** Sir, green fuel means AFR or is it all put together?

**Management:** Green fuel means alternate fuel. AFR denotes alternate fuel and raw material. So, for us green fuel is alternate fuel which is plastic, municipal waste or biomass and all this. And alternate raw material which we call green material, that is slag, fly ash, etc.

**Ritesh Shah:** Right. And sir any solar and WHRS targets?

**Management:** Yes, we are putting up two WHRS plants also in our two plants, as well as now on solar power plant we are working in a big way, and maybe in next quarter we will be able to share our plans.

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

**Prateek Kumar:** Sir, my first question is regarding the eastern expansion. You mentioned we are looking at 3.5 million grinding expansion by 2020 end, which includes Bokaro and Bengal. So, Orissa will come by FY21 end?

**Management:** Yes.

**Prateek Kumar:** So, we have changed something? Earlier we were of the view that part Orissa will come first then Bokaro will come later.

**Management:** This was the plan. We are going as per the plan only.

**Prateek Kumar:** And what are their respective capacities?

**Management:** So, Bengal is 2.25 million, and Bokaro would be around 1 million.

**Prateek Kumar:** And the Orissa expansion which will come later at single location would be 4.5 million?

**Management:** 2.5 million.

**Prateek Kumar:** And there is any other capacity?

**Management:** That would come in Bihar, so we are in the process of acquiring the land, and so maybe 14 to 15 months' time that would come up by March 2021.

**Prateek Kumar:** So, both the remaining 4.5 million will come by March 2021 as well?

**Management:** Yes.

**Prateek Kumar:** Okay. And regarding this Murli acquisition, so you said you will be in control of that asset by December 2019.

**Management:** Hopefully, hope so.

**Prateek Kumar:** So, if we are, then from second half FY21 we should build some volumes from that plant?

**Management:** Probably yes.

**Prateek Kumar:** Okay. And sir, what would be our current trade, non-trade mix and fuel mix?

**Management:** 60:40.

**Prateek Kumar:** And fuel mix?

**Management:** It depends on pet coke prices also and coal prices also. But then we are able to use the most economic fuel everywhere. And maybe if you want to know about pet coke, so it will be about 75%, 77%. So, we have the capability to use 100% pet coke also which we have displayed also. So, whichever is the economic fuel, it's being used in every plant.

**Prateek Kumar:** And balance would be international coal by around 10%, 15%?

**Management:** International coal will be hardly anything in cement plant, it is the local coal or linkage coal which gets sourced in eastern plant.

**Prateek Kumar:** Okay. And just one question on incentives. So, what are the pending incentives number as of now?

**Management:** We told that, we moved about Rs. 30 crores, Rs. 35 crores this quarter, and for the quarter we will continue about Rs. 120 crores to Rs. 140 crores for the next year also. Post-acquisition of Murli incentives and our incentives on the east, we will let you know what further incentives can happen. And we have received about Rs. 200 crores of incentives for the half year, and we are on target to achieve probably another Rs. 200 crores to Rs. 250 crores collections on incentives. And as of pending today, is about Rs. 800 crores.

**Prateek Kumar:** As of first half Rs. 120 crores we have Rs. 800 crores pending?

**Management:** Yes, accrued and receivable.

**Moderator:** Thank you. Next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

**Madhav Marda:** Sir, just one question. Just wanted to understand, after the current round of expansion, how much limestone and land do we have available to further do organic expansions, either brownfield or Greenfield in different parts of the country?

**Management:** We have sufficient limestone and land to go ahead with the three to four brownfield, and we have mining leases at four places for which we can go for Greenfield also.

**Madhav Marda:** Okay. And is the land available with the limestone mines for the Greenfield expansion?

**Management:** Sorry?

**Madhav Marda:** Is the land also available for the Greenfield expansions at the limestone mines that we have?

**Management:** For Greenfield we have to still acquire the land.

**Moderator:** Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

**Bhavin Chedda:** Good morning, sir. Good set of numbers and the volume growth in difficult environment. A couple of questions, how much has been the CAPEX done in H1? And what is the plan for FY20, and also FY21?

**Management:** CAPEX done in for the first half year is about Rs. 620 crores. So, till H1 2020 we will spend about Rs. 1,250 crores CAPEX. For the year we would probably spend another, probably depends upon how the capital commitments and actual cash flow goes out, about Rs. 700 crores to Rs. 800 crores. And the CAPEX plan for the next year, the balance continues about Rs. 1,000 crores, because we will be completing the entire East expansion by March 2021.

**Bhavin Chedda:** Right. So, total FY20 Rs. 800 crores plus Rs. 600 crores, Rs. 1,400 crores. And 2021 would be Rs. 1,000 crores?

**Management:** Rs. 1,200 crores, depends.

**Bhavin Chedda:** Okay. And Murli will be additional over and above this?

**Management:** Yes, Murli is additional, Murli Rs. 400 crores, as and when we get the Murli physical to be acquired we will have to pay Rs. 400 crores, and there is about CAPEX of about Rs. 350 crores to Rs. 400 crores.

**Bhavin Chedda:** And so this should take you to roughly a grinding capacity of 37-odd million by March 2021?

**Management:** Yes, cement capacity, not grinding, because we have relevant clinker to produce 38 million tons of cement.

**Bhavin Chedda:** Okay. And clinker should be roughly 20-odd million by March 2021, right?

**Management:** Yes.

**Bhavin Chedda:** Including Murli?

**Management:** Yes.

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

**Pulkit Patni:** Sir, you mentioned in your opening remarks that while the proportion of premium cements actually grew, but the realizations got impacted just because of the price correction. Can you please highlight, A, what is the proportion of premium cement now? And what is the kind of price decline that both premium and regular cement actually saw in this particular quarter?

**Management:** Exact number we may not be able to highlight, but at the same time I would say that about 18% to 19% is a premium product which we are able to sell in East and 12% overall, and slowly, slowly it will be growing. And as I explained, on account of volume there has not been any pressure on prices, but in general in eastern parts of our country there has been subdued demand and that's why subdued prices.

**Pulkit Patni:** Sure, sir. Sir, my second question is, given that East had massive floods also this time around, can you tell us what would be your outlook for the next six months in terms of cement demand in that area?

**Management:** Now, maybe after 10, 15 days things should improve, because flood has subsided in Bihar. Though there are some intermittent rains which are going on in various parts of east, but at the same time, now after Diwali and Chhath then things should improve, demand should improve. But difficult to predict specific demand number, but then things should be better.

**Moderator:** Thank you. The next questions is from the line of Apurva Bahadur from Jeffries. Please go ahead.

**Apurva Bahadur:** Sir, on the eastern side, as you said, I mean some demand improvement is expected. So, are we seeing any pricing improvements as well?

**Management:** It may happen.

**Apurva Bahadur:** And to what quantum, sir?

**Management:** Difficult to quantify. But then yes, whenever there has been strong demand in past few years also we have seen that prices can go up by Rs. 10 to Rs. 20. But it all depends on demand scenario.

**Apurva Bahadur:** Okay. And I mean, are we seeing some revival in the government CAPEX as well, given that there was some election related slowdown, so have things started picking up or are we still waiting?

**Management:** So far, there is no clear visibility, but then the way announcement has been done and the way now road projects are being pursued, so it looks like that now things should improve.

**Apurva Bahadur:** Okay. Last question from my side on this northeast coal mining policy, so what's the status over there?

**Management:** Still there is no development and still government is not clear in what way they have to go ahead. But as and when it comes and whenever they allow some different type of mining activities, then that may benefit us.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

**Saket Kapoor:** Sir, firstly, if you could give us the debt numbers in the absolute terms.

**Management:** The absolute debt is about Rs. 5,300 crores, and cash of Rs. 2,000 crores. So, there is a net debt of Rs. 3,370 crores.

**Saket Kapoor:** And what number did you give for the trade and the non-trade segment, how much, 60:40 you said?

**Management:** 60:40. Depends, it comes between 60, 65 and 35, 40.

**Saket Kapoor:** And have any internal targets that we have set for a year or two we are looking for in the trade and the non-trade segment? How this mix can likely change going forward, that is what my query is.

**Management:** So, the trade may be 65%, 67%, and the balance would be non-trade.

**Saket Kapoor:** Sir, I am referring to slide #25 of your presentation, wherein you have mentioned about working impact of depreciation due to restructuring. If you could explain, since the income from operations and the expenses before and after are the same, what exactly has been the impact? Is it due to the Eastern region, some restructuring in the written-down value only?

**Management:** Saket, this is the restructuring impact, when we have restructured the business this is the additional depreciation which is being charged for the restructuring impact, to see Dalmia Bharat as one. So, if restructuring was not there, the deprecation would have been without restructuring, which we mentioned. So, it is just giving an impact of the restructuring depreciation, that's all. From 2018 onwards this has changed.

**Saket Kapoor:** This has had nothing to do with the merger with Orissa Cement and all, is that also factoring there?

**Management:** Everything to do with merger of Orissa, this is only to do with the merger of Orissa Cement and DCBL and Bokaro and everything.

**Saket Kapoor:** Okay. Because the revenues and all are similar.

**Management:** No, revenues will be consolidated only, Saket. Revenues can't change, the restructuring impact comes post-EBITDA.

**Moderator:** Thank you. We take the next question from the line of Rajesh Lachhani from HSBC. Please go ahead.

**Rajesh Lachhani:** Sir, first question would be with regards to the industry demand expectations in FY20. Sir, given we have demand contraction in the first half, and we have high base in the previous year, what would be the best guess for your demand expectation in FY20?

**Management:** So, maybe like, if the demand grew in a better way in second half, then there maybe 3% to 4% demand growth for the whole year. Which means that the second half should grow by 8% to 9%.

**Rajesh Lachhani:** Understood. And sir, I just wanted to understand this notes to financial statements, in the Note 6 the Supreme Court has in its order said that NSE will honor all F&O segment contract which had matured on 27th June, 2019. Sir, just want to understand, how was impact, were there chances of getting the entire amount?

**Management:** It directly doesn't impact our chances. There was a difference of opinion between SEBI and NSE clearing house, whether the trade can be annulled, and trade can be settled. So, the Supreme Court is deciding on that matter. Our thing of getting our chances which Mr. Singhi in the opening remark also mentioned, that between six to nine months we expect, because our units continue to remain frozen. What happened with the settlement happened? It was directed that the cash margin which the clearing corporation had made use of was paid to settle the trade. So, it has nothing to do with us technically.

**Rajesh Lachhani:** Sir, I was just trying to understand who will take the hit after all?

**Management:** I think everybody is trying to understand that only, but we are very clear that the unit which are stolen property belongs to us and cannot pass on any good title.

**Management:** So, we will not take the hit, that's for sure.

**Rajesh Lachhani:** Understood. That's quite clear. And last one, you mentioned your trade to non-trade at 60:40. Sir, can you let us know what was it in the previous quarter?

**Management:** We will just let you know offline.

**Moderator:** Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

**Bhavin Chedda:** Sir, one more question. In terms of the volume growth of 8% this quarter, can you roughly give the breakup, how much the south volumes have grown, east volumes have grown or the rough sales volume mix in the overall volume?

**Management:** It won't be possible to share that breakup.

**Bhavin Chedda:** Growth number also wouldn't be possible?

**Management:** Sorry?

**Bhavin Chedda:** Growth number also, which markets of yours showed growth and which market showed a decline, if any?

**Management:** I can broadly say that the east was better, then northeast.

**Bhavin Chedda:** And how's the South also did, post a positive growth or it was…

**Management:** Yes, positive.

**Moderator:** Thank you. Next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

**Gunjan Prithyani:** Just two questions. Firstly, on the power and fuel cost, would you be able to share what has been the realized rate for pet coke in this quarter? And are you expecting significant easing from here on also in terms of power and fuel costs? I mean, I am just trying to understand pet coke could it realize this quarter and versus the spot right now?

**Management:** So, purchasing price of pet coke maybe as of date would be around \$72, \$73. But then when we calculate it at landed price up to the factory, then it comes to about \$80. So, we are expecting that maybe in comparison to last quarter there can be a decrease in the overall cost by 5% in pet coke.

**Gunjan Prithyani:** 5% more, so realized rate this quarter would be more closer to like $85-odd, or higher than that?

**Management:** Less than that, madam, 5% lower.

**Gunjan Prithyani:** Okay. I am just trying to understand most of the pet coke correction benefit has been clearly seen in this quarter, you are not expecting more from here, let's say if pet coke stays at current level.

**Management:** Some more correction would come and some more benefit would come in Q3 also.

**Gunjan Prithyani:** Okay. Can you share how much sir, do you expect another 5% odd correction here?

**Management:** Yes.

**Gunjan Prithyani:** Okay, got it. And the other question was on the volume, now this 8% is clearly much higher than how the industry fared in this quarter. So, is there anything you can share, is the geographical mix very different, how, I mean, it is just little perplexing to see 8% growth when industry is going down 3%, 4%. So, anything you can share to give us in color how has this been achieved in this quarter? Is it meaningful market share gains in particular in certain markets?

**Management:** I won't be able to share that much detail, but then as per our strategy we improved on our brand, we improved on our marketing activities as well. And then we have improved on brand positioning, and that has benefited us.

**Gunjan Prithyani:** And the trade and the non-trade hasn't changed materially, right, it has been…

**Management:** Last quarter also it was 60%.

**Gunjan Prithyani:** Okay, so that mix is not changing, okay. And last question, on the freight side also there has been a meaningful reduction, I mean, what does that pertain to?

**Management:** Not exactly, whatever, say better negotiations as well as some benefit of higher load on the truck, that has helped us.

**Management:** And a slight amount of reduction in the lead distance with the Kalyanpur coming in.

**Gunjan Prithyani:** Okay. I mean, where are we on the lead distance now?

**Management:** It's about 290.

**Moderator:** Thank you. The next question is from the line of Sagar Parekh from Deep Finance Please go ahead.

**Sagar Parekh:** Firstly, on the refactory business you said you are looking to sell. So, can you give us some color in terms of numbers, revenue and profitability of that business?

**Management:** That business is Rs. 500 crores to Rs. 550 crores of business and which is just less than 5% in overall DCBL comparison. And EBITDA is about, for the half year it was about Rs. 20 crores and maybe about Rs. 40 crores, Rs. 45 crores.

**Sagar Parekh:** Okay. So, less than 10% margins?

**Management:** Yes.

**Sagar Parekh:** Got it. And secondly on the cement prices, post September can you throw some color in terms of South and East, how has the prices moved up post September?

**Management:** Not much difference, except that in East now because volume may go up because of better demand, so there can be price increase. And this is what I can share at the moment.

**Sagar Parekh:** Okay. So, nothing on the south, right, because we have been hearing there was some Rs. 25, Rs. 30 increase in the south market as well.

**Management:** We wish that your news comes true, it will help us.

**Sagar Parekh:** Okay. And just last question, on this deferred tax credit, how many years of deferred tax credit do we still have before we change the tax rate?

**Management:** No, changing of the tax rate, of course, we are doing our working and probably we will let you know in one or two quarters, that is before March. So, I think a lot of internal workings are happening, because there are a lot of changes and a lot of things which we have done on the restructuring side which are the available exemptions, and whether if I don't get the exemptions, how will it work out. So, I think probably next quarter we will get a little better, clearer picture.

**Sagar Parekh:** And for this year, then what would be the tax rate that we should work on for FY20?

**Management:** For us, it's always MAT, after the restructuring. So, it has not really changed so much.

**Moderator:** Thank you. The next question is from the line of Anupam Goswami from Stewart and Mackertich. Please go ahead.

**Anupam Goswami:** Sir, just want to know what was our target debt levels for FY20 and FY21?

**Management:** I think there are no specific target debt levels, rather we want to our specific debt EBITDA target levels. But I assume that we would probably at the range of above Rs. 3,600 crores, Rs. 3,700 crores for the year end, because depending upon how much of CAPEX we spend and how much of cash internal generation happens. And probably about Rs. 4,000-ish crores level for the next year. But, of course, it will keep on changing depending upon how the things work out. But more importantly, what is to understand is that we will keep on pursuing that any additional cash which is not required than what the minimum is would be used for CAPEX or for repayment of debt.

**Anupam Goswami:** And sir, what is our clinker capacity coming up?

**Management:** By March of 2020.

**Anupam Goswami:** And sir, what is a quantum of that?

**Management:** 3.1 million tons.

**Moderator:** Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

**Amit Murarka:** Just couple of questions. One, for these expansions what are the slag tie-ups that have been done?

**Management:** Yes, we have few slag tie-ups also. As well as, as per the practice of steel companies, they every month or every quarter they sell it off then they don't do tie-up. So, we are pretty sure that we will be able to source fly ash and slag for our expanded capacity.

**Amit Murarka:** And what will be the blending ratio right now, the cement-clinker ratio?

**Management:** It is about 1.6 for the company.

**Management:** For East, It will be 2.3 to 2.4.

**Amit Murarka:** For the east you mean?

**Management:** We will just confirm to you.

**Amit Murarka:** Sure. And lastly, I didn't get the number of the incentives that were booked in quarter.

**Management:** This quarter we booked about Rs. 30 crores and we received Rs. 200 crores. And for the year we expect about Rs. 120 crores to Rs. 140 crores of booking of incentives for the full year.

**Amit Murarka:** And the new Eastern capacity that is coming up, does that also have some incentives?

**Management:** It will have, but that is still under negotiation, under discussion.

**Moderator:** Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

**Rajesh Ravi:** I have a few questions. First on the depreciation cost booked in this quarter, there is a slight jump up on Q-on-Q basis, what led to that? And second related to the same, this amortization of intangibles, when this would be totally exhausted? And third on the Kalyanpur, if you could throw some light on the utilization is 1Q when you said that it is around 50, 55 in 2Q, and last year Orissa market that is becoming, a lot of capacities are bunching up in Orissa in next few years, so how do you see the competitive intensity there?

**Management:** On the depreciation side, why it is higher is because if you refer to Note 7, we have mentioned it that we have reevaluated our benefits derived from the northeast and we have decided that henceforth we will depreciate the Northeast plants on a written-down method. And hence, you have seen a slight increase in the depreciation from then what we are seeing.

Your second question was related to, you were a little too quick, I was just noting it down. I am sorry, but could you just repeat the question one by one and probably me or Mr. Singhi can respond then.

**Moderator:** Sir, the line for the current participant has dropped. We take the next question. From the line of Nitin Bhasin from Ambit Capital. Please go ahead.

**Nitin Bhasin:** So, a bunch of questions. One was that, look at your variable cost today for the last few quarters, where do you see now it settling, because it is roughly closer to, if I am not mistaken, Rs. 1,500, Rs. 1,600. Where do you see, is it one of the lowest or how do you see the next six, nine months?

**Management:** It is expected that it may come down anywhere between Rs. 50 to Rs. 80.

**Nitin Bhasin:** Can it go lower than Rs. 1,500?

**Management:** Yes, yes.

**Nitin Bhasin:** And primarily because of pet coke and slag?

**Management:** Yes, these are two major factors. But then there will be many factors on account of which we will be able to bring down our variable cost.

**Nitin Bhasin:** Sir, because trying to understand that where are the efficiency limits getting hit? I know that new efficiencies would come on, because you come from Rs. 1,680 all the way to Rs. 1,560, Rs.

1,570, just trying to say, how much more, you said Rs. 70, Rs. 80. Okay. Sir, number two was premium cement. You mentioned about 18%, 20% is today's share, is it the state share in South India and East India?

**Management:** Shares are for East India, and now in South and Northeast also it will grow.

**Nitin Bhasin:** So, premium cement can grow in South India and East India, so roughly what will be the share, closer to about 30% or 25%?

**Management:** I wouldn't be able to share those numbers, from a strategic point of view. But at the same time, yes, these are the numbers. And as far as say your question on variable cost is concerned, since we are working on green fuel, we are working on reducing pet coke prices, we are working on fly ash also, so there is a scope of reduction and we should be able to achieve that also.

**Nitin Bhasin:** Okay. So, what's the difference between premium cement blended for the last quarter versus non-premium cement for you in realization? So, premium cement realization average versus non-premium cement realization average, what could be the difference, how many rupees per bag or how many rupees per ton?

**Management:** From state to state, it would be Rs. 15 to Rs. 20, Rs. 22.

**Nitin Bhasin:** Okay. Sir, last one was North India, media reports or even somewhere the company had mentioned, we are getting into Rajasthan. How should we think this over the next three and five years? What are you trying to do over there? What location, what sort of investment, what sort of structure are you looking at? Because at one point in time, yes, you were bidding, but now not bidding for that and you are looking for Greenfield expansion, how should one look at this in the next three, four years?

**Management:** We have the mining lease, and now the mining leaves will get executed shortly. And at the same time, we will start acquiring the land and then this land acquisition may take two years or something. And thereafter, definitely we would go for this Greenfield project. But at the same time, to give you a commitment about the exact time line, it's difficult. But then yes, we have the full intend to put up a Greenfield project in Rajasthan.

**Nitin Bhasin:** So, that will be roughly like 3 million tons of clinker or more?

**Management:** Around this capacity, 3 million to 5 million tons.

**Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

**Madhav Marda:** Thank you for the follow up. I just had one very basic question, a lot of companies in the cement industry are launching premium cement and branded cement. Just trying to understand, what is the benefit of this premium cement to the end customer, like, how does it benefit them? I am not very clear actually.

**Management:** Benefit is in terms of better quality, and better after sales service also, better consultation also as well as the assurance also. So, these are many factors which helps people to buy for premium cement and to pay extra the way we pay for better brand, because that definitely gives assurance of consistency and everything. And at the same time, I don't mean that which is not premium, it doesn't have these things; but then yes, there are certain differences which does happen and which gives confidence to the customer.

**Madhav Marda:** Sir, I mean, does it seem like a stronger building or a stronger road or longer life of the building, is that the benefit?

**Management:** It all depends how can you use this type of product. It is just not the cement but in totality what sort of concrete mix he makes, what sort of steel he uses, what sort of practice he uses, so many things. But then, yes, if anybody wants to do or go for better construction, then premium cement does help.

**Management:** And also to an extent, just to add, is that the overall cost for him comes down because with the premium cement the kind of fine grinding which happens, he may be required to use less of steel, which actually gets the same strength for his housing for individual home builder, and reduces his overall cost.

**Moderator:** Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

**Rajesh Ravi:** Hello, sir. Sorry, my line got disconnected. You had mentioned on the depreciation cost, we were on like what was the thought process on the amortization, by when that could get over?

**Management:** No, I think that will still last another three to four years but depending on what kind of now tax rate which we choose, probably after a couple of quarters or a quarter, we would be able to let you know.

**Rajesh Ravi:** Okay. And sir, for the Kalyanpur, what was the utilization in 1Q?

**Management:** 50%.

**Rajesh Ravi:** So, we are around 50%, 55%, and this is gradually expect to inch up towards 70% by end of the financial year?

**Management:** That's right.

**Rajesh Ravi:** Okay. And sir two more questions, I think one you already answered, like for North expansions I believe you answered in one of the previous questions that you are looking for land pooling and….?

**Management:** You are right.

**Rajesh Ravi:** Okay. And sir, Orissa market, what would be your thoughts? Because a lot of companies, you know, Shree Cement, JK Lakshmi Cement and Sagar Cement, and there are few more, were looking into setting up grinding units in that market. How would that change the competitive intensity in the market?

**Management:** Of course, it will increase the competitive intensity. But at the same time, since we have very good brand positioning there and we will also have the volume, and at the same time it looks like that Orissa demand should also now grow by 8% to 10%. So, all taken together, we expect that yes, we will be also able to increase our market share or may be able to maintain our market share with our own new expansion coming in.

**Rajesh Ravi:** Okay. And sir on the incentive where you are saying there is uncertainty on the new expansion, that would be for all players who are setting up capacities in Orissa, West Bengal and Eastern states?

**Management:** We have not said uncertainty, we have said that now that process is on.

**Rajesh Ravi:** Okay. So, there will be incentives, but the quantum role is to be quantified?

**Management:** That's right.

**Rajesh Ravi:** And this is for all players, not individual to Dalmia?

**Management:** I am not sure, because we have the integrated plant there, but I am not sure about the plant or other companies.

**Rajesh Ravi:** Okay. Sir, and on the trade, non-trade mix when you say that we are around 60%, 65% and the premium product is around 12%. So, does that mean 12% of the 65% trade sales on a total basis your 12%?

**Management:** On a trade basis.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I know 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 tanks for participants for joining the call. Thank you very much. You may now conclude the call, Stanford.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining. And you may now disconnect your lines.