# "Dalmia Bharat Limited Q2 FY 2019 Earnings Conference Call"

**October 31, 2018**

**MANAGEMENT:** **MR. JAYESH DOSHI -- WHOLE TIME DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER, DALMIA BHARAT LIMITED**
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**MODERATOR:** **MR. VAIBHAV AGARWAL -- PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

**Moderator:** Good day, ladies and gentlemen. And welcome to the Q2 FY19 Conference Call of Dalmia Bharat Limited, 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 now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

**Vaibhav Agarwal:** Thank you, Margret. Good morning, everyone. On behalf of PhillipCapital (India) Private Limited, I welcome you to the Q2 FY19 Conference Call of Dalmia Bharat Limited. On the call we have with us the entire Senior Management team of Dalmia Bharat. And at this point of time, I hand over the floor to Ms. Himmi Gupta at Investor Relations for opening remarks, which will be followed by Senior Management commentary and then the Q&A. Thank you and over to you, Himmi.

**Management:** Thanks, Vaibhav. We welcome you all to the conference call for the quarter and half year ended September 30, 2018. I have with me on the call Mr. Mahendra Singhi –Managing Director and Group CEO (Cement) and Mr. Jayesh Doshi -- Group CFO and Whole-Time Director of DBL.

I would now like to hand over to Mr. Mahendra Singhi for his overview on the company.

**Mahendra Singhi:** Happy morning, friends. And let me also wish all of you a very Happy Diwali in advance. I am very happy to share with you that we have achieved one of the biggest milestones in our corporate history, i.e. the amalgamation of all our companies and our subsidiaries, the details of which Mr. Jayesh Doshi will share with you shortly.

I am also aware that you might have got our earnings details, our results quite late, and I am sure you would be in the process of understanding it. Maybe and if after this call you have questions, you can ask those questions to Himmi and all our team members. So, friends, let me now take you through what we have been doing in last three months and first half of this FY19.

One, on broader basis let me say that cement demand is on up-tick. It has seen good growth. And maybe from April to September the numbers may be around 14% or so. And in line with the overall demand growth, we are also growing. And in the second quarter we have grown by 14%. Similarly, looking at the way rural economy is growing, the way government projects are progressing, more particularly on affordable housing, infrastructure or road and on irrigation, etc, I think it looks like that the demand would grow further. But at the same time the last H2 figures of FY18 were a bit higher. So, in totality, it looks like the demand growth for the whole year FY19 may be around 9% or so.

You might have seen enough cost pressure in our results and in the results of various other cement companies also. And the reasons are also well known, and one of the major reasons is fuel prices; and secondly, in some part of India, particularly eastern part, the prices of slag. But at the same time, you would be also happy to know that we had taken certain proactive actions on account of which we are now able to contain the cost pressure and we expect the moderation in cost may come now.

And one of the major actions was to introduce innovative product which is composite cement. Late last year we introduced composite cement and then slowly, slowly we have built up on that. And you might be knowing that composite cement means a composition of clinker, slag, fly ash, which is good from economic point of view, which is good from environment and sustainability point of view. And gradually we have built up and we have also introduced premium brand in composite cement which is FBC. And I am happy to share that now the volume in totality it is about 12% - 15% of our total all India sales. And at the same time, now we are also leader in manufacturing and selling composite cement as well as slag cement in India.

Now, with this composite cement, slowly and slowly we will be able to contain the requirement of slag. Few of you might be aware that because of export of slag to Bangladesh and to some extent Nepal also caused a shortage of slag in India. Now, what we have seen is the moderation in the demand of slag also and slag stocks are now slowly and slowly piling up in steel plants.

Second major cost has been the fuel, pet coke prices as well as coal prices, they have also gone up and it has gone up up-to I think $115 - $118. However since last one month we are seeing a price moderation and it may be hovering now around $105. As per our past performance, we have been able to contain the cost of pet coke by using Saudi pet coke and local pet coke also. And now we are seeing some moderation in cost, so maybe in time to come the cost will not go up except if there is again any impact of rupee depreciation. As already seen, the rupee depreciation and pet coke prices have impacted our profitability just like how it has affected the profitability of various other companies.

At the same time now we have also started using in a bigger way green fuel or the alternate fuel, which is also getting us good savings. And recently the Government of India and the Coal Ministry have come out with option of coal linkage, and coal linkage also we have been able to get. And that would also in time to come would help reduce our fuel cost. Otherwise, if you look at our performance parameters in terms of power consumption per ton of cement or heat consumption per ton of cement, or conversion ratio also, our company is performing very well.

Now, the branding of our product is going in a big way and the introduction of FBC composite cement is catching up and growing gradually.. Same way our other premium product Dalmia DSP is also growing slowly and slowly. And we are quite confident that these would be premium brands on all India basis eventually.

In addition to our normal performance, you are aware that we had acquired Kalyanpur Cement, a very old company where it was close for many, many months. Our team has done a great job by revamping it. And within five months we could start this old cement company. Now, recently we have started producing cement and dispatching cement. And from the month of November the cement sales from Kalyanpur Cement which has been named as Dalmia DSP Limited, would go in full swing. So, we do expect that it will get good results, in terms of capturing the growing Bihar market, and at the same time price benefit which we will be getting, say like the price at which we have launched is about Rs. 60/bag higher than what Kalyanpur Cement was selling it. We are already in the process of now further incurring certain CAPEXs on account of which the performance of Kalyanpur Cement, which is now DDSPL, can be further improved.

Friends, two other matters, one, Murli Cement - at the moment still is pending in High Court and NCLT. And the same is the case of Binani Cement which is pending for judgment of NCLAT. So, anytime judgment of NCLAT on Binani is also expected, and the same also in Murli.

So, these were the few introductory remarks from my side. We are working on sustainability in a big way and we have now targeted that slowly and slowly first we should move towards carbon neutrality, and then carbon negativity. All of you are aware that from carbon footprint point of view, our carbon footprints are the lowest in the global cement world, and now we have identified a few major areas on which we can work like replacing the coal with biomass, with bamboo, etc. And second, how we can develop technology of carbon capturing and utilization. It will go in a bigway, it will take long time, and it will need collaboration of various actions in the area. But still we have dreamed of it and I am sure that this initiative of replacing fuel with green fuel, which may be biomass, which maybe bamboo, etc, it will go a long way in bringing down cost and increasing our profitability also.

You might have by now seen that our EBITDA per ton is at about Rs. 896 per ton, and so far whatever four major companies which have come out with the results, our EBITDA per ton is highest amongst them. Yes, it is lower than what it used to be and the reasons for the same you are fully aware. And at the same time in terms of net debt to EBITDA also, our company is on the right path.

Now, I would request our CFO, Mr. Jayesh Doshi, to further share his thoughts. And more particularly, on merger and then what we are doing more on finance side. Thank you.

**Jayesh Doshi:** Good morning, everybody. First of all, I would like to apologize for late sharing of detailed information which our team had been preparing and which was shared at about 9:45 a.m. after the Joint Board Meeting was completed at 9:45 as some of the Directors required some understanding about the past accounts which we accordingly shared.So, that is why it was late, and I just wanted to place that on record.

Secondly, I would like to extend my sincere appreciation and thanks to all the shareholders who have been with us on this journey, for at least 3 – 3.5 years, from the time we acquired OCL as a subsidiary. And there were a lot of suggestions, two, three big ones, that we should first of all try and consolidate and amalgamate all the companies and make it one listed company. And I think from that time it was very clear to all of us here, Mr. Singhi, myself and Mr. Puneet Dalmia that, yes, this is the course of action and line of action we should follow. And yes, you have been patient and we have been successfully now reaching the culmination of that growth.

This amalgamation of all the companies into now one operating company and one listed company puts aside all the questions of accessibility of cash, platform for the new growth, and how we would now utilize these kind of synergies, which we would be having for our Phase II journey.

Just to recapitalize a few things, we had this merger or amalgamation as we say it, it is tax neutral and a very efficient merger. With this merger we believe that certain amount of valuations have been created at a fair value whereby we have goodwill and intangibles which will give us tax break for the future profits to be made. And depreciation, of course, would be higher now going forward. And I would sincerely urge and implore to look at our cash profits and cash EPS for a few years, because I think the focus of the company, the goal of the company is to retain cash for growth and distribute cash.

And in terms of distribution, our dividend declaration as against 2.1, we have done 1.7 per share, so the payout ratio to the Dalmia shareholders is 50% higher as against Rs. 2.20. Now since you will be getting Rs. 1.70 on two shares which will come in, so effectively your dividend would be Rs. 3.4. So, we have distributed a higher payout in terms of dividend also.

As far as the gross debt is concerned, we have been able to maintain the gross debt at Rs. 7,119 crores. The Rs. 48 crores increase in the gross debt is primarily because of the consolidation of interest free of debt of Kalyanpur, which has to be paid over a period of next four to five years when we acquired Kalyanpur. And Mr. Singhi has briefed you about the progress on Kalyanpur.

Our net cash is about Rs. 3,300 crores, so we have a debt EBITDA ratio of about 1.95x for the half year ended. If I include CAPEX of about Rs. 350 crores spent on our east as well as little bit of maintenance and some amount of Kalyanpur, we have really utilized our cash in the most efficient manner without actually increasing our borrowings.

As Mr. Singhi also said that we are striking a balance in terms of our growth objectives as well as the objective for disciplined growth, and we will endeavor to stick to that discipline.

I just wanted to point out one thing, in the results as you might have seen that we have a FOREX MTM of about Rs. 109 crores for the half yearly, but out of which actually Rs. 85 crores is a non-cash MTM, and for the quarter it is Rs. 66 crores. As you are aware that the rupee really this quarter jumped substantially, though we don't have much of the borrowings, our total foreign currency borrowing is about $180 million, which is about 18% of our total debt. We have managed it quite well. But as per the Indian Accounting Standards, even if you are hedge positioned, you have to still mark-to-market. Hence, the entire Rs. 84 crores for the half year is non-cash outflow, which is of course captured in the cash profit because our half yearly cash profit is about Rs. 728 crores as against Rs. 800 crores.

And also, to reassure each and every one of you that the entire amount of Rs. 3,300 crores is earning about 6.5% - 7%, we do not have any exposure in any mutual funds which even has any exposure in IL&FS or any such thing. So, let me reassure that we have been on top of it, managing the cash quite efficiently, even though, albeit at some point of time at a lower rate of interest earnings. But let me put it to rest that yes our cash position is pretty safe and we are on it and watching it quite keenly and very-very minutely and micro managed.

I would now, as Mr. Singhi said, once again apologize for sending the results a little late. But I am sure all of you would appreciate that last four years of annual reports and balance sheets have been restated,which was a herculean task by any stretch of imagination. So, I am sure that all of you would condone us for this delay.

I am willing to now, me and Mr. Singhi would like to take questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

**Rajesh Ravi:** Sir, on this goodwill and other intangible assets which is now around Rs. 4,900 crores, could you throw some light what exactly is this number? Because it is a significant increase and this has dented both the P&L in terms of increase in provision and amortization and also rise in the networth, thereby diluting the return ratios. And second, if you could throw some light on that incentive receipt is cash receipt that has been received by the company or it is the accrual number that you share every quarter? Thank you.

**Management:** Let me address the second one, yes, Rs. 179 cr is the actual cash receipt for thehalf year , because every time people say how much is the cash for half year, and we have received something in October also which we will share it in this quarter. Secondly, just to answer your question, yes, the creation of intangible and goodwill is actually restating all our assets acquired at fair value. Because when we acquire at a certain price, looking at the fair value at the current valuation reports, scientifically based reports, and that is why the creation of Rs. 4,800 crores of intangibles. This would entail us depreciation on that which would be available, which is a tax positive for us, and hence you see that every year our depreciation increase is now about Rs.

500 crores per year. So, this is a tax break against this where the cash would be conserved by the company.

**Rajesh Ravi:** So, you would get tax benefit on this Rs. 500 crores incremental depreciation that you are positioned?

**Management:** Yes.

**Rajesh Ravi:** And incentive after receiving this Rs. 180 crores, what would be outstanding at September end, sir?

**Management:** It is about Rs. 1,100 crores. But let me also say that we have received about Rs. 130 crores in the month of October.

**Rajesh Ravi:** And lastly, if you could throw some light on Murli, as you mentioned also in your opening remarks, so where do we stand now? And for the limestone mines and all, by when do you expect this to get in position, because you need some more time to make it operational.

**Management:** You are fully right. But at the same time, since it is pending in High Court, so there is an uncertainty. So, from the management side it is not possible to give timeline. But we are quite hopeful that in the month of November itself we should get positive judgment. Like you might have seen even in case of Binani also it is about more than 45 days that judgment is reserved. And there is a right reason to keep the judgment reserved to write the judgment in greater detail. So, at the moment it is not possible to give the timeline. But our wish is that let this be completed in the month of November.

**Rajesh Ravi:** And lastly, I think Kalyanpur you have ramped up well and you are also able to place it Rs. 60 higher a bag compared to the old brand. So, in terms of the profitability do you believe it would be in similar rank as your other consol Dalmia assets are delivering?

**Management:** We hope so.

**Rajesh Ravi:** And this PCC would be commanding similar margins or it is better than the other OPC and PPC profitability, or PSC?

**Management:** See, now neither we produce OPC nor we produce PPC. Now, we are producer of only blended cement, particularly in eastern India. And so eastern India it will be fetching almost same price of slag cement.

**Rajesh Ravi:** So, your margins would also be similar, but better market penetration?

**Management:** Margin would be a bit better. We will be using less of slag which at the moment is at a higher cost.

**Moderator:** Thank you. Our next question is from the line of Rajesh Lachhani Lachhanifrom HSBC. Please go ahead.

**Rajesh Lachhani:** Sir, with this amalgamation over you spoke about certain synergies. One, you already described about the financial synergies in terms of tax benefits. But do you also see some incremental cost because of this amalgamation? And second, I just want to understand what is the blending in the compost cement, if you can just share some light on what is the composition of slag and fly ash in that?

**Management:** The synergy is that they would be better cash associated management, better people management, as well in terms of movement of material from one region to other. It may separate to some extent. But at the same time since all companies were part of the group so those synergies were already there. Now, in terms of composite cement, the conversion ratio may be ranging between 2.1 to 2.3, which means about 50% or so composition of fly ash and slag, and 45%, 47% clinker and 3% of gypsum.

**Rajesh Ravi:** And sir what was the blending of fly ash and slag, is it equal proportions?

**Management:** Okay. So, it ranges from say 25% to 28% something.

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

**Ritesh Shah:** Sir, my first question is, how should one look at the royalty rates on limestone, post this transaction for the OCL assets? Will it increase or it remains with the current level?

**Management:** It will remain at current level.

**Ritesh Shah:** Okay. Sir, pardon me for my ignorance, how is this transaction different from say something like what Ultratech and JP have done wherein they are looking at higher royalty payments?

**Management:** They had acquired a company wherein ours is a group merger, it is a consolidation of group companies, this s how it is different.

**Ritesh Shah:** Okay, I will come back to you on this. Secondly, timeline on the expansion that we have highlighted, specifically the clinker facility at Rajgangpur and the grinding units which is work in progress.

**Management:** Yes.

**Ritesh Shah:** Sir, can you help with the timelines over here?

**Management:** We said that around 6 million ton will get commissioned in FY21 and balance might get postponed to FY22.

**Management:** One, we have already placed order for main plant and machinery for one grinding unit. We would be placing another order maybe in two months time. Secondly, the first production of clinker, etc, that should come in first half of FY20.

**Moderator:** We will move to our next question. Our next question is from the line of Amitabh Sonthalia from SKS Capital & Research. Please go ahead.

**Amitabh Sonthalia:** So, I am still a little confused about the merger restructuring that we are doing. If you can kind of put it…

**Management:** May I know who is speaking, sorry?

**Amitabh Sonthalia:** This is Amitabh Sonthalia from SKS Capital. So, you have disclosed the post-merger, a couple of question I have about, I know you have disclosed a fair bit of information but I still have some questions and there is some confusion about the process. You delisted OCL, first of all, currently. And OCL shareholders will get against two shares they will get one share of Dalmia resultant entity. So, the OCL shareholders that have just got delisted few days back have got shares of Orissa cement as on today. Now, this is an interim shareholding, right, I thought OCL shareholders will get Dalmia shares.

**Management:** Let me clarify, OCL shareholders who got delisted and who has got ODCL shares is going to be shares which will continue with Dalmia Bharat because we will change name of ODCL to Dalmia Bharat Limited, and that will become the holding company. Every shareholder of Dalmia Bharat who will get delisted because record date we are yet to finalize by 15 November and we will announce a record date and the shareholders list would stop trading probably in the last week of December. Because right now what happened is that listed company of OCL has gone into ODCL which was an unlisted company. We have applied for listing of ODCL shares. Once that gets listed, we will announce our DBL record date, post which DBL will stop trading. And one DBL shareholder will get two ODCL shares, which will be renamed as DBL. Right now, I have to keep it as ODCL till DBL gets delisted.

**Amitabh Sonthalia:** So, ODCL will get listed first?

**Management:** Absolutely.

**Amitabh Sonthalia:** When is that likely to happen, when will ODCL get listed, roughly?

**Management:** See, we have applied, but usually SEBI takes about 30 to 45 days, because it is listed to unlisted company, we are trying to see how fast it can go. And post that, so that Dalmia Bharat keeps on trading and I want to see as much of shorter gap as possible. So, that is the whole purpose. So, ODCL will get listed probably in a month's time to 45 days time, post which we will DBL recorded and listed. So, I am expecting the amalgamated company to be listed and traded probably by January first week or something.

**Amitabh Sonthalia:** So, if OCL has got delisted it will get relisted you are saying in let's say 45 days time which is about…

**Management:** No, it will get listed.

**Amitabh Sonthalia:** Yes, that is what I am saying, it will get listed, ODCL which is unlisted at the moment will get relisted by mid-December, right?

**Management:** We are hoping, yes, last week of November or 1st week of December.

**Amitabh Sonthalia:** I do not know the timeline, but the sequence of events is what is more important and which is what I am trying to understand.

**Management:** The sequence of event is, ODCL will get listed after which we will put record for Dalmia Bharat, and that trading will start from the record date whereby those shareholders will get two shares of this listed ODCL. Post which the amalgamated company will trade.

**Management:** So, the equity capital of Dalmia Bharat which is Rs. 8.9 crores will become Rs. 19.2 crores.

**Amitabh Sonthalia:** Which will be ODCL shares?

**Management:** Correct

**Amitabh Sonthalia:** So, I am trying to ascertain what will, on prima facie based on your presentation today, the final resultant equity shares outstanding goes up to Rs. 19.2 crores shares, right?

**Management:** Absolutely right.

**Amitabh Sonthalia:** Which is after amalgamation of all entities and everybody has direct interest. So, I am just going based on the simplistic understanding that OCL and Dalmia were trading at roughly Rs. 25,000 crores market cap, pre-OCL delisting. Based on Rs. 19 crores shares and assuming Dalmia Bharat is trading at current price, where is that Rs. 15,000 crores extra-market cap coming from, what are the dilution which is happening, what is the combined entity getting in exchange of the…?

**Management:** The Dalmia Bharat is getting full amalgamated of OCL, DCEL, everything. So, everything is now being treated at fair market value. And the ratio, when I went to the shareholders which got approved at 100% was two shares for every Dalmia Bharat shareholder.

**Amitabh Sonthalia:** No, that is clear. I mean, OCL and Dalmia conversion ratio is very clear.

**Management:** That is based on valuations of the chartered accountant, the cash flow and that is how the goodwill and intangibles have been created.

**Amitabh Sonthalia:** And have you also released the pro-forma, so what changes really? I mean, pre-merger, pre-restructuring Dalmia Bharat listed entity, any case was declaring consolidated results.

**Management:** Yes, but there were two listed entities, there were seven subsidiaries.

**Amitabh Sonthalia:** I know there were two listed entities but Dalmia Bharat was consolidating OCL. So, I am just trying to understand post merger how will the consolidated picture change in terms of your reported financials?

**Management:** Reported financials will become Dalmia Bharat. See, earlier OCL also used to announce results, now only one entity Dalmia Bharat will announce results.

**Amitabh Sonthalia:** That Iunderstand.

**Management:** For you nothing changes, but from our angle the aspects of cash, the entire cement plant is sitting now in DCBL. So, everything gets consolidated in one and you have one listed entity. And the free float increases, the number of equity share increases. And that is what we believe that there will be value created. And all the assets which we have acquired are now valued at its fair value and Dalmia Bharat shareholders will get the tax benefit for the next four, five years.

**Moderator:** Thank you. Our next question is from the line of Anshuman Atri from Premji Invest. Please go ahead.

**Anshuman Atri:** Sir, my question is regarding incentives accounting. Has there been any change, and is it part of other income or part of revenues?

**Management:** No, there is no change in policy, there is no change in accounting.

**Anshuman Atri:** So, it is part of revenues?

**Management:** Yes, you are right.

**Anshuman Atri:** And composite, is there any way to increase more of fly ash and slag? I mean, can we increase the blending further?

**Management:** Yes, we are making all these efforts.

**Anshuman Atri:** So, it is possible?

**Management:** Maybe by next quarter we will be able to tell you how much is possible and how much is not.

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

**Pratik Kumar:** Sir, my first question is regarding this follow-up of previous participant's question on changes on incentive accounting. So, while there is no change as of now, so one of the competitions has reported incentive income as other income starting this quarter. So, are we looking at that change in future quarters, or we don't know as of now?

**Management:** As far as we are concerned, there is no change.

**Pratik Kumar:** No expected change either for future?

**Management:** So, far yes, no change.

**Pratik Kumar:** And sir, you mentioned about slag now, basically slag supply is building up in the system, so that should help in prices of slag coming down. So, has there been price moderation already visible like for pet coke, or is it still on expectation level?

**Management:** It is on expectation level.

**Pratik Kumar:** And sir, just one question on this pet coke price decline. So, now post this decline has this pet coke again started to become more remunerative versus coal, I mean, any views there?

**Management:** Even at the price of \$110 or \$115 also the pet coke was remunerative, more particularly plants which are based in southern India or near to ports, etc. Because coal had also gone up, except the coal which is from linkage that was only remunerative but otherwise imported coal was not remunerative. So, it looks like that in comparison to coal pet coke would remain remunerative.

**Pratik Kumar:** Sir, what is our pet coke mix and general fuel mix?

**Management:** We are using around 57% pet coke.

**Management:** So, wherever we have linkage, where we have lignite, the philosophy of our organization is that whichever is economic fuel that would be used. So, we are using green fuel, we are using lignite, we are using linkage coal, so this is all sort of fuel we are using, so as to make the most economic fuel.

**Pratik Kumar:** And just one last question, you mentioned and you said on the new CAPEX the first production of clinker from new CAPEX on clinker will start from when?

**Management:** So, that can happen by March 2020.

**Pratik Kumar:** From clinker? But from the capacity which we have ordered is grinding?

**Management:** So, we have already ordered clinker, we have already placed order for integrated cement units.

**Moderator:** Thank you. Our next question is from the line of Rashi Chopra from Citigroup. Please go ahead.

**Rashi Chopra:** Just coming back to the incentive, what are the incentives that you accrued in this quarter? And second, how have realizations moved sequentially if we exclude the impact of the incentives?

**Management:** Prices have moved maybe 1% to 3% from area to area, and on that account our NCR has also gone up by roughly 3% to 4%, which is also a mix of both price increase also and to some extent logistic cost also.

**Rashi Chopra:** 3% to 4% would be year-on-year, right?

**Management:** Yes.

**Rashi Chopra:** And sequentially how that has moved?

**Management:** Sequentially that might not have moved or maybe 1% here or there.

**Rashi Chopra:** And would you be able to share the incentive number for the quarter?

**Management:** Yes, this quarter about Rs. 40 crores was booked as incentive.

**Rashi Chopra:** And the other thing is that your EBITDA per ton is around Rs. 900, so once we start factoring in Kalyanpur, you already mentioned that the price premium has moved up by Rs. 60 versus earlier. But in the first year or so, I mean, what differential can be there on the EBITDA per ton, or rather, what differential can be there on a cost basis versus your existent operations?

**Management:** This Rs. 60 extra is on account of whatever the earlier Kalyanpur cement management was selling. But of course, it is in line with all A+ brands which are selling in Bihar. And definitely in times to come maybe by next quarter we will be able to tell you. But otherwise EBITDA should hover around Rs. 800 to Rs. 1,000.

**Moderator:** Thank you. Our next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

**Amit Murarka:** Sir, also just on Kalyanpur, that would also accrue some incentives, so can we get a sense around that as to in that Rs. 800 to Rs. 1000 per ton what kind of incentives can we expect?

**Management:** Yes. It may be around Rs. 300 to Rs. 400 a ton.

**Amit Murarka:** And also on this merger process, so as part of this entire merger there is no increase in limestone royalty for you, right?

**Management:** You are right.

**Amit Murarka:** Also, lastly, in terms of the tax calculation, so basically on the reported financials what I see the calculated tax comes to about 40% to 60% range. So, can I get a sense of as to how has this been calculated or on reported financial then will it be in this range going ahead?

**Management:** On the reported financials actually the tax rate would be, as I said, this Rs. 500 crores of additional depreciation would be tax break item. But on the PBT this will be of course lower interest. But for the quarter, see what has happened is that there was lot of tax which has been adjusted from the last four years. So, you can take it offline, I will explain to you how the tax calculation is done. But this 40% is not what we are going to get, and that is very clear. The tax for the next two to three years would be only MAT which will available, and that too on some instances we will also get MAT exemption from the tax.

**Amit Murarka:** Sir, it will be MAT on reported financials after the amortization of goodwill you mean?

**Management:** Please check the way you might have calculated tax rate on our profit, it cannot be 40% or so what you are reporting.

**Moderator:** Thank you. Our next question is from the line of Jigar Shah from Maybank. Please go ahead.

**Jigar Shah:** My question, first is on Kalyanpur cement. What do you expect the volume for current year and next year?

**Management:** Next year it should be about 6 lakh tons to 7 lakh tons.

**Jigar Shah:** And this year?

**Management:** This year it may be around 2 lakh to 2.25 lakh tons. The whole intention is to keep it as a premium brand and on that account, we would not be pressing much on volume in initial time. And thereafter automatically it will gain the volume.

**Jigar Shah:** So, can one say that it will be in profit next year?

**Management:** Sure.

**Jigar Shah:** Couple of smaller questions. I think you mentioned about total incentive of Rs. 1,100 crores. So, does that include the one on Kalyanpur as well?

**Management:** No.

**Jigar Shah:** And what was the incentive in the second quarter of last year?

**Management:** You may check it offline.

**Jigar Shah:** And one last thing is on, I think Jayesh just mentioned about Rs. 500 crores of additional depreciation, so is that the additional book depreciation on an annual basis from FY20?

**Management:** From current year itself.

**Jigar Shah:** So, it will all come in last quarter?

**Management:** No, it has already started coming, because we have drawn the balance sheet effective FY16. So, the Rs. 500 crores additional depreciation has happened from FY16 onwards, not only last quarter. So, when you look at it on a year-to-year basis there will not be any changes in the depreciation, only if you look at my annual report, the pre-merger, you will see the depreciation of about Rs. 700 crores.

**Jigar Shah:** Okay, so anyway it is already considered?

**Management:** And one more thing, the incentive of previous quarter.

**Management:** So, to reply to your question, it was Rs. 81 crores in Q2 FY18.

**Moderator:** Thank you. Our next question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

**Saumil Mehta:** I just missed out on the CAPEX number for next year FY20, if you can give that?

**Management:** We didn’t share also, so you didn’t miss.

**Saumil Mehta:** Sorry, I thought you would have shared.

**Management:** The total CAPEX is about Rs. 3,700 crores for the east project. That depends on how it will be phased out. We expect by FY this year and next year, this year about Rs. 900 crores to Rs. 1,000 crores of which Rs. 250 crores have already been spent, and next year about Rs. 1,500 crores to Rs. 1,700 crores, and then balance in the third year. So, that is how the phasing will happen, I cannot have the exact number that what will be as of today, depending on the progress of the plant, etc. But as I said that I expect this year about Rs. 700 crores, next year about Rs. 1,500 crores and the year after that about Rs. 1,400 crores on east. Over and above that, Kalyanpur will have a CAPEX of about Rs. 150 crores spread over two years.

**Saumil Mehta:** And in terms of the incentive number of Rs. 179 crores, that is the number you have booked or that is the number you have realized in the P&L?

**Management:** We have got the cash. Book is Rs. 44 crores only.

**Saumil Mehta:** And for the 25 million tons of capacity what you have, ex of Kalyanpur and Murli, how many years of incentive, on a very broad number how many years of incentives would have been left with us now?

**Management:** It cannot work like that because every plant, every state will have different incentives. Now, when Kalyanpur comes it will be for seven years. So, it will be very difficult to generalize how many years is left.

**Saumil Mehta:** But those incentives would be only for the east plant, I assume, the existing ones what you have?

**Management:** When Murli comes in we will have for Murli also, because that is what the resolution plan mentions.

**Management:** So, now we say it is for the company.

**Saumil Mehta:** And in Murli how many years of incentives you have?

**Management:** Let it happen, but it is for maybe 16, 17 years. But let it happen we will share with you.

**Moderator:** Thank you. Our next question is from the line of Girija Ray from SPA Securities. Please go ahead.

**Girija Ray:** Most of my questions have been answered, but I have a question. So, I can see our overall realization has increased by 3% and as our company is having a strong presence in south and eastern part of India, just wanted to know in which region did you see a good realization? Is this particularly in east? And what is the outlook on demand and realization in these two regions for next two quarters?

**Management:** Our NCR is good in all regions. And overall there has been price increase of may be 1% to 3% and NCR increase of 3%, 4%. So, that way everywhere it is good. And demand wise also it looks like south has also started picking up. So, south, east, northeast, all together they are growing 14%, 15%. And should grow by may be another 7%, 8% for the second half.

**Girija Ray:** And what is your outlook on pet coke price, there is a lot of pressure from pet coke price, so just wanted to know what is your outlook on pet coke price?

**Management:** Yes, so whatever alternatives are like waste products or hazardous waste of many pharmaceutical company or paint company, we are using biomass, and that is going up and up and up. And then we are using waste heat recovery system power also. And then whatever coal we are able to procure from linkage that is also we are increasing so that becomes to some extent substitute of pet coke. But as I have said earlier also, whatever would be the economic fuel availability in our area which would be used, because our plant and people are more tuned to use most economic fuel. So, in my view pet coke price should range between $90 to $100.

**Moderator:** Thank you. Our next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.

**Mithun Soni:** Most of the questions have been answered, just one question. What is your view on the overall supply expected to come in our core markets over the next few years?

**Management:** I think supply, we believe and we have shared cement supply that our view very strongly and we have reiterated all the time is about 4% to 5% against a demand of 9% to 10%. I think FY19 we have already seen about 18 million tons which is again going to be about 5%. So, we are still sticking 4% to 5% of additional supply and demand at about 9% - 10%.

**Mithun Soni:** Do you think is it going to be possible to increase the pricing in the market in the coming period, like about next six months or it is still going to be volume driven opportunity?

**Management:** Volume definitely if there is a 9% growth then everybody would like to take the volume. So, volume story would be there. And then depending on the market or depending on the area, depending on the month, prices can also be better, because it is all demand and supply scenario of pricing.

**Moderator:** Thank you. Our next question is from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.

**Murtuza Arsiwala:** Just wanted to get a sense if you could share breakup of cement that you are selling between OPC, PPC, slag and composite? If you could give that composition. And the second is, if you could share some indication on the utilizations of Kalyanpur, how they were under the previous management and how have you been able to ramp it up currently?

**Management:** Say, on Kalyanpur cement, earlier it was maybe 30% to 40% utilization, which in time to come will be around 80% to 90%. And maybe in one year's time again then it should touch 100%. And in terms of our overall product mix which you wanted, this is about 28% - 30% OPC, 28% - 30% PPC, 29%, - 30% PSC, about 13% to 15% composite cement.

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

**Anupam Goswami:** My first question would be, in this scenario what kind of incremental demands over supply, would there be a substantial price increase because in the industry we are not seeing any price increase and that is what the cement company is subdued on. So, can you extend that scenario?

**Management:** Like I said earlier, price would be determined by demand and supply. So, in certain months if it is other way around that demand is better and supply are not there, either on account of higher demand or on account of logistics or anything, then it may see some spurt. And particularly, now the coming month which is December to June, they are comparatively better months, so one can see better scenario. This is in general I can share with you.

**Anupam Goswami:** And what is the current scenario in the southern market, because your bulk of the cement in the south. So, can you share some, and what is the pricing and supply demand going on there?

**Management:** Bulk is everywhere, bulk is in south also, it is in east also and in northeast also. But in south prices do go Rs. 10 – Rs. 50 higher, Rs. 10 – Rs. 50 lower also. So, there is no matter of concern as such, but then we would have been happy if prices would have gone up. And every cement company would have been happy. But at the moment it has not gone up in the way anybody would have thought of. And demand wise it is good, demand wise it is better like I said earlier, south is not only now driven by Andhra and Telangana, but to some extent now Kerala should also be able to see good demand because again that revamping is required. So, in one or two months' time that should also pickup in a big way.

**Anupam Goswami:** And last question, can you just give me an update on your pending mergers and also on Binani investment?

**Management:** Good news is that there is no pending merger. Everything has happened. Now certain externals which will be happening on account of unlisting and listing of new shares, etc, that will happen in two months time. And in the case of Binani, now we are expecting, or everybody is expecting the judgment of NCLAT and then that would make the things clear.

**Anupam Goswami:** And when that is due sir?

**Management:** Who can tell the judgment date of the judge.

**Anupam Goswami:** I thought it was already announced. Thank you.

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

**Pratik Kumar:** Sir, just what is the CAPEX till date for FY19?

**Management:** Right now it is about Rs. 356 crores which has happened for the first half year.

**Pratik Kumar:** What is the estimate of around Rs. 1,500 crores which was given in some presentation like a quarter back?

**Management:** Rs. 1,500 crores I have never said, we said that for the year we are expecting that kind of CAPEX, depends on how the east expansion Murli and Kalyanpur pan out. So, if Murli has not happened for last three months I can only estimate, that is why I am saying depending upon that the numbers will change, the total CAPEX will spent in FY19, 20 and 21. When you guys want breakup of one year we estimate it, depending upon when the acquisitions happen and when the projects actually take place.

**Pratik Kumar:** And sir, is there any stamp duty payment related to this amalgamation process or any major stamp duty payment pending?

**Management:** No, nothing is pending. There is no major stamp duty payment. But yes, some stamp duty payment has been made as per the law of the land.

**Pratik Kumar:** And just one question, what will be now our premium product mix at DSP and FBC included?

**Management:** DSP and FBC combined is around 14%.

**Pratik Kumar:** This number used to be similar number for over a year or so?

**Management:** No, it was around 10%.

**Management:** And this is not only the premium product, this premium product is for east. Then in case of south, in case of northeast whatever cement that gets sold in trade they all are in A or A+ brand. So, to that extent whole material gets sold in premium product line.

**Pratik Kumar:** So, including all that it is like at 14%?

**Management:** Sorry?

**Pratik Kumar:** I mean, across regions sale of these two products in sale mix is 14-15% for premium segment?

**Management:** What I am saying is that DSP is majorly sold in east and now we have started in northeast where it has become 5%. But otherwise also whatever cement is being sold in trade they all are in premium product only. Say like whatever three, four major brands are being sold at the same rate and the same price our cement is also being sold.

**Moderator:** Thank you. Our next question is from the line of Ashish Jain from Morgan Stanley.

**Ashish Jain:** So, on Kalyanpur this remains a separate legal entity or we merger it in this whole restructuring process?

**Management:** Presently it is separate legal entity.

**Management:** Ashish, it has taken 2.5 years to merge everything, I mean, we will do that also but just give us a little breathing time.

**Ashish Jain:** Just I wanted to know from a requirement point of view…

**Management:** It is now a separate entity.

**Ashish Jain:** And secondly the comment that you made, we will be under MAT, that is after the incremental Rs. 500 crores depreciation, whatever is the PBT on that 20% MAT, is it right?

**Management:** Yes.

**Ashish Jain:** And lastly, just on the existing incentive that we have, leave out Kalyanpur and Murli if it happens, do they run down close to zero in fiscal 2020?

**Management:** So, it will continue but then whatever pending incentives are there we are hopeful that we should be able to recover that money from the government.

**Ashish Jain:** Sir, I understand the cash flows, I am saying more from a P&L point of view.

**Management:** It will continue in certain areas.

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

**Saket Kapoor:** Sir, firstly, just for an understanding, for the P&L on the consol level we find foreign exchange fluctuation cost on borrowing for this quarter at Rs. 42 crores and then again on part in expense there is other finance cost including exchange rate difference of Rs. 45 crores. So, could you elaborate…

**Management:** That is why, Saket, I explained that the total FOREX cost or FOREX change is about Rs. 86 crores for the quarter, of which Rs. 66 crores is non-cash. See, what happens as for accounting standard some of the hedging products which we take, some of the hedge things have to be accounted in a different manner, and others come as the other finance cost is. So, the total are FOREX, you are right.

**Saket Kapoor:** So, sir, taking that into account we posted around PBT loss of Rs. 64 crores, that means for this quarter we were at a PBT of only Rs. 5 crore on the consol level?

**Management:** On the consol level for the quarter yes, if I take 69 out then it was a positive PBT of Rs. 5 crores.

**Saket Kapoor:** So, sir, now taking into factor the variable cost push that has happened, how is the scenario shaping up going forward and what will it take to mitigate these variable cost push so that the PBT levels and the PAT levels improve going forward?

**Management:** Mr. Singhi will respond, but I want to say, I think from now onwards from at least three years we should look at cash profit made for us because of the amalgamation which we have done a very tax neutral. So, that is just one pointer for you.

**Management:** And the philosophy has been that how much cash we can retain in the organization, and we do not go for some optical figures, but at the same time we go for real numbers which can be helpful for our growth. And on that account you would go into detail and you would, maybe in some time to come you will be able to appreciate the real benefit which this merger has given, this consolidation has given. So, that is one. And secondly, on account of cost pressure, etc, like I shared with you, this composite cement which will go a long way to breakdown cost also and same way the alternate or green fuel which we can use. And third, all other measures are being taken so that our logistic cost comes down slowly and slowly, though it has already happened or otherwise the way it should have gone up on account of higher fuel prices it has not gone up. So, all those measures would be there and we are quite confident that we would continue to perform one of the best cement players in the country.

**Saket Kapoor:** Last bit is, what was the average utilization for the group levels for second quarter and for the first half as a whole?

**Management:** 67% for the first half and I think for the quarter about 66% -- 67% only.

**Saket Kapoor:** Sir, last part, when we met for the board for the OCL lastly, it was decided that once the amalgamation and things will be over the dividend will be pondered upon. Sir, I being erstwhile shareholder of OCL India what is now the dividend outlook for FY19?

**Management:** FY19 we have given, now the shareholders will get Rs. 1.70 per share dividend.

**Saket Kapoor:** That is for the Orissa cement holder or once it gets into…

**Management:** No, for everybody. These are consolidated, 19.2 crores shares, we will get Rs. 1.7 per share.

**Saket Kapoor:** Rs. 1.7 will be the dividend which you are getting for last year earnings for OCL?

**Management:** For everybody. Now this year, last time was FY18.

**Saket Kapoor:** Sir, I was just putting a point to the notes which we have for the OCL where it was very correctly mentioned…

**Management:** OCL has also now amalgamated so you will get Rs. 1.7.

**Management:** And I think Mr. Singhi is just answering one of question.

**Management:** So, capacity utilization for first half has been 69%. Now as per your question, what is our overall capacity utilization of cement sector in India?

**Saket Kapoor:** Sir, for entire country you are asking?

**Management:** Yes. As per you?

**Saket Kapoor:** Sir, it is in the vicinity of 69% to 73% only. Am I correct on the data, sir?

**Management:** Broadly yes. You are more knowledgeable.

**Saket Kapoor:** No, not at all sir. Sir, generally we are seeing that it is the southern portion that has contributed in the volume uptake and even in the monsoon period this is one of the unique feature for cement industry for this quarter that every company is giving good volume numbers in spite of this being the monsoon quarter. However, the cost push has hit the bottom-line. So, just trying to understand that we are just building upon the volumes at the cost of even profits?

**Management:** One, monsoon of entire country is different than the monsoon of Tamil Nadu. Now, you must have understood that monsoon is starting now in Tamil Nadu. So, called this northeast monsoon has started now in Tamil Nadu and forecast is that tomorrow there should be very heavy rains. But at the same time, nothing happens at cost of profit, all efforts are for the profit only and at the same time to keep up the market share and increase the market share. So, everybody does try their best and that is how we have also tried. And fortunately, with the well wishes of everybody we have sustained it also.

**Saket Kapoor:** Lastly sir, we are now moving into the best half for cement industry, the October, November, December to the March quarter are the largest in terms of spending also and weather conditions are also… so sir will it be possible for us to match even the last year numbers now as a consol entity, or it will be a tough task depending on the market condition today?

**Management:** What was the last number?

**Saket Kapoor:** Last number we did around Rs. 9,000 crores as revenue and Rs. 389 crores for PBT, so how likely are we on the path to even match those numbers, because there is a gap and cost process.

**Management:** Like Jayesh has already shared that, now you should not look at PBT, you should look at how much company has been able to retain cash. So, of course, we should not give that sort of forecast. But whole team is doing their best and we will be the better performer in the sector.

**Moderator:** Thank you. We will take one last which is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Due to no response, we will move to our next question which is from the line of Ritesh Shah from Investec Capital. Please go ahead.

**Ritesh Shah:** Sir, I have two questions. First is on the cost saving side, if you can highlight incremental plans specifically on WHRS? I think you did indicate on AFR. And secondly, is you can just highlight what is exact by heat value the quantum that we are getting through linkage and lignite right now?

**Management:** You are aware that we had installed 10 megawatts waste heat recovery power plant which we call green power plant, so that is almost working at about 95% to 100% capacity utilization. And that has brought us good profits, good savings also as well as we are able to bring down our Q2 emissions also. And secondly, about lignite, we are able to use it to the extent that it remains economical than the pet coke. And that is happening in our two southern plants.

**Moderator:** Thank you. Ladies & 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 (India) Private Limited, I would like to thank the management of Dalmia Bharat for the call opportunity. And also, many thanks to the participant for joining the call. Thank you very much, sir.

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