



“Dalmia Bharat Limited Q1 FY 2021 Earnings Conference Call”

August 07, 2020



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**MODERATOR: MR. VAIBHAV AGARWAL -- RESEARCH ANALYST,
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Moderator: Ladies and gentlemen, good day. And welcome to the Q1 FY '21 Earnings Conference Call of Dalmia Bharat for the Quarter Ended June 30, 2020. Call is 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, Stanford. Good morning, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Earnings Call for the Quarter and Year Ended 30th June 2020, 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 of Dalmia Bharat, which will be followed by interactive Q&A. Thank you and over to you, Singhi sir.

Management: Yes. So, happy morning friends. It's a great pleasure for me and my team to welcome you all. Friends, I am sure all of you are keeping yourself healthy and safe, and the same for your family also. All of us are well aware that we all have been together facing this uncertain time, the COVID time. And in this COVID time, the good part is that our country led by Prime Minister Modiji and all other people, they are trying their best to save the people and at the same time to save the economy. Though figures may sound here and there, but still what we feel is that we are in safe hands and we all are taking all due care so that we can save our people also.

Friends, from organization's point of view, we kept our focus on people, customer and cash. While focusing on people, which includes first our employees and then all the stakeholders, we are very happy to say that we could keep our people fully healthy and safe and we could continue to ramp-up our business after this uplifting of lockdown from 20th April. The lockdown has created a lot of uncertainties and I would say that there is a certainty of uncertainty today also and atleast a few quarters to go ahead. This uncertainty has caused big hiccups in the overall day to day life, and at the same time, day to day economy also.

On account of these hiccups in the economy, things are changing week in week out, month in month out, quarter in quarter out. And at the same time, this is also giving us one lesson that whatever the situation is, one has to face it, and then one has to excel out of it. I am very happy to share with you that our team has done best in terms of coming out of uncertainty and performing in a better way. They have been able to take care of the people also, take care of the plant also, take care of all the stakeholders which includes our customers, vendors, transporters,

etc., and the result of that is that we have been able to run our plant well in time, efficiently in time, and at the same time, we could also serve our customers well in time, and I would say, in many cases, before time. And when I said before time, maybe before they could get cement from someone else, we could supply them cement.

Based on this philosophy, friend, I would say that our company has been able to perform better than even what you people thought, what we also thought. And this is really the blessing in disguise that in spite of almost 35% degrowth in Indian cement sector, also country, and maybe a little bit different in South, little bit different in East, we only de-grew by 19%. You have the figures broadly of all major companies, who have de-grown maybe from 25% to 35%, but we could keep up our promise to ourselves, to others also, that we would be performing better than the industry. And the result is that yes, our degrowth has been comparatively lower.

And if you try to understand, after April 30 what happened then we would say that, yes, in the month of May and June, we do better than our performance of May and June. The result is that, yes, there has been a 19% de-growth, but at the same time, that degrowth has been taken care by few factors which could give us the best EBITDA so far for our own organization also, and if we compare with the major cement companies of the country, then this must be the best EBITDA so far in Indian cement sector for major companies.

The EBITDA/T of Rs. 1,675 with operating margin of 32% and overall EBITDA of Rs. 614 crores is a contribution of efforts of the people also, and at the same time the market conditions. You all must have understood, normally in the month of May and June prices does go up, prices will try to regain their footing. And if we compare FY '19 figures with the FY '20 also, then you would find that broadly the prices in May and June broadly are same, and that has given us a big boost to our profitability. At the same time, in addition to the price, whatever efforts we could make in a proactive way so as to reach to our customers well in time or before time to have efficient logistics system, having focus on our brand, as well as the higher sale of our premium brand DSP in this quarter, it has helped us in a big way, it has contributed in a big way.

And our trade sale for this quarter has gone up to 75% against around 60% to 61%. The reason being is that during this period, there was less institutional sale, you are aware that the construction activities in metro cities and other major projects that has got affected in a sizable way. But at the same time, the demand, which was created by rural public, that has contributed in a big way. And that has also helped us in having our better trade sales. But in time to come, we are expecting that, yes, the trade percentage would come down, because slowly and slowly when institutional sales also go up, the overall volume will also go up, but at the same time, the trade percentage would also come down.

Similarly, we could increase our blended sale also, one, because of trade sales and again because of our good presence in rural market. So, blended sales has gone up to almost 85%. And thirdly I would say, the logistic cost has also come down by making efforts on, one, efficient usage of various digital tools which we have slowly implemented, and at the same time, some reverse

auctions and all that. So many actions have also helped us to bring down our logistics cost to some extent.

So, now, the point is that, how is demand and how it would continue? So, friends, to me it looks like that there is a big uncertainty and slowly, slowly the impact of COVID or the red spots which were broadly in metro cities, now they are travelling to semi-urban cities, even to rural areas also. And more particularly, if you compare April, May versus now July and August, you would find that Eastern part has now a lot of red spots and states like West Bengal, then Bihar, then larger part of Orissa, they have various COVID-19 problems. And on account of this, there has been frequent lockdowns, there has been a philosophy of government to lockdown sometimes Saturday-Sunday, two days together, sometimes Tuesday -Wednesday together, so that is also creating uncertainty.

And if we look at the demand scenario, both in East and South, in East after 15th July or so, demand has deteriorated. And if we look at South also, then you would find that COVID-19 problem in Karnataka is going up, in Maharashtra its increasing; and at the same time even Kerala is also getting affected now. So, based on that a lot of uncertainty has come up and will have to face this uncertainty along with all Indians together, all companies together. And at the same time, yes, globe is also facing this uncertainty. The best part for us is that our whole team, whether it's sales team or the logistic team, the manufacturing team or HR team, Corporate finance team, all are working in consonance, together so much to counter the immediate impact of this uncertainty in the economy also, uncertainty in the demand also.

Having said this, that yes there is uncertainty about price, uncertainty about demand. But at the same time, what we are trying to create certainty is in terms of whatever lever which we have with us, so one of the major lever is the variable cost. So on variable cost, we have worked in a big way or a strategy basis by which we could bring down the variable cost. And I would say, this should be one of the lowest variable cost during this quarter. Efforts have been made on bringing down power consumption, heat consumption, reducing power rates. And at the same time, by increasing the blended cement sale, the variable cost has come down. So, you see that this result has already come. And there are a lot of leavers also which are under process, by which also we are expecting that we will be able to get better variable costs in quarters to come.

We are also putting up one waste heat recovery system in Kadapa plant which will get commissioned by year end. Similarly, the impact of our commissioning and successful production of our line 3 Rajgangpur in East that will also contribute in a big way in times to come in the variable cost reduction. And we are expecting that maybe from 1st October or so, this line 3 will get stabilized. And at the moment because of COVID-19 situation, because of not getting the right people at the right time, the trial run has got bit elongated. But that broadly now whatever the situation today is, we are quite hopeful that from 1st of October this will get stabilized and we will get better benefits from this production of line 3, which in our view would be one of the best clinker lines in the country.

We are also fully aware that there is uncertainty about pet coke prices. And if you see that last quarter, which is Q1 2020, the pet coke prices were comparatively high. But this quarter pet coke prices have come down and I would say that the petroleum coke prices again have started moving up. So this is one major uncertainty in our variable cost, otherwise broadly all the levers are in our hand.

In addition to working on variable cost, friends, we have also work consciously on fixed cost. And you have seen that in this quarter fixed cost per tonne, maybe one of the best in the industry and the best for us on per tonne basis, but this may not be the cost levels in times to come, reason being the, one, there was a lower production; secondly, certain costs got deferred, like expenditure on marketing which is required to be done, but since in many cases there was no possibility of doing any type of major activity on marketing, that cost has come down.

Similarly, we have taken cautious call of our offices space, so that would definitely be of a long-term nature. Similarly, the cost on travel, cost on conveyance and many other overhead expenses, that has come down because of non-functioning or I would say, functioning of our major offices which is Head office and regional offices from not working from office but working from home. I am very happy to share that our people are enjoying the philosophy of working from home, working from anywhere. And we have experienced that this has also added somewhat betterment in our performance. But still we must see that how long it would go. So on fixed cost, to some extent it will again go up on account of increase in volume, marketing cost and few others also. But then there will be constant efforts by the management, by the team to keep it down.

On other parts, on our credit rating, I would say that our company has been rated for long-term resources by CRISIL as AA-plus, so that speaks of the quality of the company, about the way the company is moving ahead. Similarly, because of good performance and good management of cash and profit, we could this quarter repay about Rs. 508 crores of debt. And on that account as well as on account of better EBITDA now, our net debt-to-EBITDA could come down from 1.34 to 1.02. And it is a great performance, and a lot of effort has been made by our finance team and maybe when Jayesh shares his thoughts with you, he would share more.

We have also worked in a big way on managing working capital more efficiently, and there also we could get a lot of our funds released. And we assure that, yes, we will be further able to manage working capital in an efficient way. We have now one project in hand which is now to get materialized which is of Murli Industries, because of non-functioning of Office of Registrar of Companies and few other offices, the deal could not get fully concluded. But we are quite hopeful that by September end, everything should now get finished, because broadly uncertainties have come down, our offices have started working. So we are quite hopeful now that Murli acquisition should get completed by September end.

And another thing is Kalyanpur Cement, which is DDSPL Limited. So the way in which we had taken over DDSPL, so there we could bring down its variable cost from, say, 2,900 to about 2,100. Now, modernization work or upgradation work is going on. And we are quite hopeful

that by year end we will be able to make its capacity to 1.1 million tonnes. And that would also bring down its variable cost in a substantial way and will also be able to share maybe in the first or second quarter of FY '22 that like what we turned around the North East plants, the Bokaro plant or OCL the same way, again the story would be repeated and we will be able to turn around the DDSPL also.

We are going ahead with certain CAPEX in terms of putting up waste heat recovery system or upgrading certain coolers etc. so that heat efficiency goes up, so there are certain CAPEX which are going on.

So friends, instance, this is what broadly I wanted to share with you. But at the same time, I am sure that you will have a lot of questions which me and Jayesh would be very happy to respond to. So thanks for your patience. Thanks for your time and thanks for showing interest in our organization.

Friends, this is a good performance which has been given by our organization, and at the same time, we are also fully conscious that there are largely large number of Covid warriors who are working for the country. So now to pay respect and gratitude to them, as well as also to cheer up the mood of the country, so what we have thought is that we must celebrate this by a musical concert. So we are organizing a musical concert in which they would be star, singers would be there, Mr. Kailash Kher and he would be supported by Mr. Ricky Kej who is a Grammy Award winner. And this would be done on the eve of our Independence Day, that is on 14 August from 6:15 to 7:30pm. We would share invite with you through Vaibhav also and through Aditi also. At the same time, I do invite you to join and celebrate Bharat. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Congratulations on a great set of performance amidst this COVID scenario. I have few questions. First, if you could explain slightly on in terms of how was the demand in East and South? Not company specific but also from industry perspective. And second on the pricing scenario that you have witnessed in both the markets respectively. And third, I would want to understand on the depreciation, this number has been coming down on a quarter-on-quarter basis, so how does that reconcile?

Management: Yes. So, first, let me congratulate you for your new CEO. So, in regards to demand, I would say, East has seen a good demand, particularly a few percentage plus, few percentage minus in May in June, and in July also it is the same. And at the same time, the South has seen quite a dip in demand. So, looks like that the East may vary from say, (-10%) to (+1%) or (+2%). But at the same time, South may see a demand drop of more than 25% to 30%. And in regards to depreciation, Jayesh, would you like to respond?

Management: The total depreciation vis-à-vis last year would definitely be lower this year, because certain reduction in depreciation is due to the WDV method. A few of the assets are completely written-off and where their useful life is expired. And, the residual goodwill is also coming down on a year-to-year basis. So you would see definite reduction in the depreciation as the years pass by. So this year we would have roughly about, depending upon when we are going to capitalize it, about between Rs. 1,250 crores to Rs. 1,300 crores of depreciation vis-à-vis Rs. 1,500 crores last year, roughly.

Rajesh Ravi: Okay. And then goodwill will remain at around Rs. 50 crores quarterly for this year at least, goodwill amortization?

Management: That depends upon that some portion is intangible, some is goodwill. So that's why I gave you a total. See, different, different parameters in the restructuring happen, so some of the intangibles are the period of five years, some are for seven years. So depending upon the useful life and the useful write-off, we will use these write-offs.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JPMorgan. Please go ahead.

Gunjan Prithyani: Just two follow-ups from my side. Firstly, on the expansion side, if you can talk about the GU expansion in the East, what is the update there? And, if there is any change for the CAPEX for the full year, including Murli and the East expansions? The second question is more on the demand side, you did caution that there are multiple lockdowns which we are seeing, specifically in East. Would it be possible for you to share if we really saw July slowing down a lot versus June? And a lot of the demand that we saw, early recovery was pent-up demand rather than underlying anything changing from the rural side? Just these two if I can get your thoughts.

Management: Sure. Second question first. Like, you are very right in your observation that in the month of May and June it was pent up demand, and more particularly from rural areas, which has helped us to get some volume. But at the same time, after more and more areas getting under lockdown or under red zones, the demand has started coming down. And from 15 July or so now demand has started coming down, of course I am aware of the East and South, but I am told that the same is the situation in North and Central area. So, one is about the COVID situation, and second now because of monsoon also. And you might have seen that Assam, then Bengal, then Bihar, that also got affected by floods and monsoon. So, to us it looks like that, yes, there will be a drop in demand.

And your second question was in regard to expansion and investment. So, I would say that, one, our line 3 that will start operating fully from 1st of October. Second, two grinding units, one will get stabilized by December, which is a Bengal grinding unit, and Cuttack Orissa grinding unit that will get commissioned and stabilized by March 2021.

And in regards to Murli now, once we are able to complete acquisition by 30 September or so, then definitely like it has to take about 10to 12 months' time to fully ramp up.

Gunjan Prithyani: Okay. And CAPEX number if I can get, and then I will join back in the queue.

Management: CAPEX number I think earlier also broadly we had shared, but it is best done offline.

Moderator: Thank you. Next question is from the line of Amit Morarka from Motilal Oswal. Please go ahead.

Amit Morarka: Sir, my question was around the new clinker unit. So, now that it has not been commissioned in this quarter, but some output has come out of the plants. Just wanted to understand that will the cost of the production be getting capitalized.

Management: You are right in your understanding; it does get capitalized. The impact is not large, it is Rs. 10 crores to Rs. 12 crores. If you are aiming that because of the capitalization, the profitability is impacted is not high.

Amit Morarka: Okay, so only Rs. 10 crores to Rs. 12 crores in the quarter?

Management: Yes.

Amit Morarka: And what was the incentive that was given in the quarter, in the P&L I mean?

Management: In the quarter we booked about Rs. 17 crores, and we received Rs. 9 crores. So we started with Rs. 709 crores we started as an opening balance, we accrued Rs. 17 crores and we received Rs. 9 crores. And the closing balance is roughly about Rs. 716 crores.

Moderator: Thank you. The next question is from the line of Madhu Kela from Emkay Ventures. Please go ahead.

Madhu Kela: Singhi sir, Jayesh, entire team, congratulation, exceptional set of numbers. I have two questions, one, even though Dalmia is a very efficient producer, do you still see significant room for cost reduction over the next 12, 18 months? And second thing is, if next year GDP goes to 10% or 12% after the dip this year, what kind of cement demand would you see coming back next year in 21-2022?

Management: Thanks, Madhuji, for your compliments. I would say that, yes, we are working in a big way on bringing down variable cost, so that it also helps us in bringing down our carbon footprint. And we would like to continue to be the lowest carbon footprint player in global cement world. So, based on that, the actions which we are taking are one on bringing down heat consumption, secondly, bringing up the power generation capacity from waste heat recovery. Thirdly, the share of blended cement should go up, and a few other initiatives are there. So there what we feel is that variable costs will continue to go down and we are sure that we will be one of the three

lowest variable cost producers in the country. There are various initiatives on fixed costs, but then definitely we won't be able to say with much certainty. Of course, if you will compare with the bigger cement companies, our fixed costs would be one of the lowest on per tonne basis.

Now, in terms of next year GDP, I would say that there is an uncertainty about this year's GDP, which anyway may contract by 5% to 10%. So, after contracting 10%, definitely it will be a competitive figure from FY '21 to FY '22. So, in that case, again the cement demand may come up by, I would say, 8% to 10%. This year it looks like the overall cement demand may degrow by 15% to 20%. So, now having a lower base, it would be possible to have better growth next year. And lastly, I would say that whatever may happen in FY '21, whatever may happen in FY '22 about cement demand, we will be able to perform better than cement sector, the cement industry of India. We have seen broadly in last many years also, in this quarter also and we are quite confident of our team, we are quite confident of our brand, and we are quite confident of our ambition.

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

Rajesh Lachhani: Congratulations on an impressive set of numbers. Sir, my question is with regards to the other expenses. So, we have seen that there has been a sharp reduction in other expenses in this quarter. I just want to understand how much of this is structural and how much is going to get reversed in the next quarter? Like what could be the run rate from the next quarter?

Management: Like earlier also I shared that certain number of fixed costs will come down, but at the same time it will all depend that how much now marketing expense we can do considering the lockdown situation here and there. So, it's difficult to give guidance on fixed costs, but like I said earlier also, our fixed cost per tonne would be one of the lowest amongst the major cement players.

Rajesh Lachhani: Understood. Sir, and the other question I had was with regards to your balance sheet position. Now it has been improving every quarter and now our net debt-to-EBITDA is now close to 1x. And we had deferred our east expansion of 2.5 million tonnes.

Management: Sorry?

Rajesh Lachhani: So we had 8 million tonne, and out of that 2.5 million tonne was still not finalized. So just want to understand, with this strong balance sheet, should we go ahead with that expansion plan in east?

Management: So friend, we never deferred. In fact, we were working on it. And broadly I would say that we have been able to acquire roughly 70% to 80% land in Bihar. And maybe in three months' time or so we may start our project operations in Bihar. And accordingly then maybe in one and a half years' time it will get the commissioned. So we have not deferred, we are on it. And we would be one of the major players in east.

Moderator: Thank you. The next question is from the line of Sumangala Nivethia from Kotak Securities. Please go ahead.

Sumangal Nivetia: Congratulations on the great set of numbers. The first question is with respect to the treasury. Now, any update or any progress have we done with respect to funding decision on the IEX stake? And secondly, the mutual fund investigations are not seeing any progress, I understand it might be because of COVID, priorities of the courts are lower. But anything we can do to, I mean, change it and fast track the process and the timeline what we are expecting for some closure?

Management: And the questions on the treasury side, what was the question, can you just repeat that? On the IEX side?

Sumangal Nivetia: Yes.

Management: On the IEX side we had said that we will come back with the strategy this year. And we maintain that by this year we will come up with a clear cut strategy of what we would be doing it on IEX. So, our clarification will come in this year. It was to come, as I had mentioned earlier, last year. But because of these four, five months which has gone into COVID, and the entire attention and focus was on getting the business up and running and getting it, it was very essential that we defer that decision. But however, we will get back to the investment community in terms of the IEX.

As far as the mutual fund units are concerned, yes. Things will hopefully start getting traction because the courts have also started taking cognizance on virtual thing, they have also adjusted. So probably we will see some light at the end of the day. But it will be very difficult in India to pinpoint and say that it will happen in three months or six months. Our endeavor is to ensure that we get our units back at the earliest, because the investigation is being completed and we will now move forward to get the units back.

Sumangal Nivetia: Understand, that's helpful. Second question is more from a medium to long-term perspective. So if you see the company, in the last 10 years we have grown at the fastest pace in the industry, in a combination of organic and organic, and we have also not shied away from taking leverage in a controlled manner. But now looks like industry is not having much of M&A opportunity and our hands are also full with respect to organic plans. And our leverage is also reducing and maybe in one, two years, we might move towards a zero net debt company. So how should we look at, I mean, from a three to five-year perspective, how should Dalmia Bharat shape up over this period? If you could just share some broad thoughts. Thanks.

Management: Yes. So, I would say, we would continue to remain as a major player. We have our body and heart and mind and soul in cement, so we tend to do better. And looking at country's cement demand scenario, country's economic strategy, we would continue to grow. And surely, again I will repeat that we will be growing better than the industry.

Management: And I think Sumangal, to add to what Mr. Singhi said, that we are very mindful of the balance sheet. And as you have seen, we have been very disciplined in our growth. Yes, 10 years back the story was different, today we have a strong balance sheet, there were quite decent leverage in Debt -EBITDA. And we will try and ensure the discipline remains and continues to remain, despite the growth as Mr. Singhi suggested that we will also be growing.

Management: And let me add that even two years back also our balance sheet was strong because our belief was strong. And we knew that how we are doing business, so we were not scared of like 1.8 net debt-to-EBITDA, because we knew that in what direction we are going. But people who get very happy with a figure, so I think it's a good figure today to be happy.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Congrats on great execution, sir. Just two questions. Firstly, a little bit more on the demand side, the great performance of Dalmia versus that of industry in the quarter, part of that probably was due to the regional mix. But any other initiative which we did, like entering new markets or anything which helped us to deliver a better performance than the industry?

Management: Even in the same region also we had performed quite better, whether it's the East, whether it is the South. And reason being is, one, our constant touch, constant virtual connectivity with the customer. And secondly, the way now our brand is becoming more and more popular, the premium brand DSP is becoming popular. And the role which logistics team could play, and plant could play in producing the right quantity of material even in the difficult time, so that has helped us in improving our market share. And I would say that in East, in this quarter our market share must have gone up by 3% - 4%, and maybe in the South it must have gone up by 1%. And we are quite hopeful that we would continue to keep up this inching up of market share in time to come. So approach of our sales team, approach of our technical sales team, marketing team, that has brought good results. This is what I would like to say.

Gaurav Rateria: Okay. Sir, second question on the freight cost, it has come down despite the average cost of diesel going up. So has there been any change in the strategy of warehousing, etc.? Or let's say, the direct dispatch from plants, that percentage is improving on a structural basis, it will keep freight at a lower cost from a longer term perspective?

Management: Yes, you are right. Almost all these areas which you are fully aware that we have worked. And now impact of digital interventions which we brought in, that is also giving us good results. And, of course, freight to some extent got impacted for some time because of higher diesel price. But at the same time, improvement in overall KPIs or in all areas of logistic, it's helped us in bringing down this logistic cost.

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

- Pratik Kumar:** Congrats for great numbers. A couple of questions. firstly, so for the East units you mentioned that clinker unit is still to commission. So, do we continue to purchase clinker from outside which we will impact our cost in Q4 as well?
- Management:** Now we are not purchasing clinker.
- Pratik Kumar:** So, we are using clinker line 3 for East?
- Management:** Yes.
- Pratik Kumar:** So, then why do we say that it will stabilize by October? I mean, efficiency will improve significantly post-October what we saw versus in Q1 also?
- Management:** Yes.
- Pratik Kumar:** And sir, one bookkeeping question. What is the premium product mix now, I mean, for the company?
- Management:** I think it would be of around 18%.
- Pratik Kumar:** And you mentioned about direct dispatches. So, how much could be directly dispatches to our customers at company level?
- Management:** You may have to talk offline for bookkeeping questions, please.
- Moderator:** Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.
- Swagato Ghosh:** The last quarter you had borrowed Rs. 600 crores of debt as a cushion. And you said that you had deployed it in some yielding instruments, and there was no prepayment. So what is the status of that? Have you used that to pay some of our debt? Or is it still on our books?
- Management:** The question, Swagato, is not that we have to earmark that money to that, if you see this quarter we have actually utilized Rs. 500 crores by repayment of the gross debt. And Rs. 300 crores will be utilized for purchase of shares. The question is that, we have utilized, and we will keep on utilizing the cash which we have in an objective manner. The uncertainty, of course, for the timing we can see a little bit more clearer. But however, the uncertainty continues to remain. And our endeavor to ensure that the debt repayment, which is slated as well as additional debt repayment continues to happen over a period of one year, it's about one quarter or one month. And we will continue to ensure that we keep on repaying the debt as and when we feel comfortable with the minimum balance of the cash which is available today. So, theoretically speaking, whatever we had borrowed, additional Rs. 550 crores, Rs. 600 crores get repaid in this

quarter, gross debt has been repaid for Rs. 500 crores, over and above what is normal payment which has happened in any case. And another Rs. 300 crores have been utilized for the buyback.

Swagato Ghosh: What I meant to ask is that, yes, money is fungible and I should not like exactly look at that number, but the yield on that bit was, obviously, like you said, last quarter, there is no negative carry, but the yield on our total cash...

Management: Today if you see, my treasuries are also yielding about 6.5% to 7% even when you know what the returns are. So we were able to invest it in a decent manner, which is about six to nine months of maturity, and we are getting decent returns from all AAA bonds.

Swagato Ghosh: Okay. Fair. Thank you. And second question is on that mutual fund units, there is an investigation that you have mentioned on your release done by independent chartered accountants. Is that a new investigation that you have started or is it some...

Management: No, no it is the same, the note continues. So, it is independent, which we had already done all the investigation, which has been completed and which has been done.

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

Madhav Marda: I just wanted to check, what would be the CAPEX number for us this year? I am not sure if it's been mentioned already, because I got dropped off, the CAPEX number for this year?

Management: This quarter or this year, Madhav?

Madhav Marda: For this year. CAPEX for this year, for FY '21 how much do we intend to spend?

Management: I think for FY '21, we will be spending somewhere about, if I exclude Murli, excluding Murli will be roughly about Rs. 800 crores. And if I include Murli's Rs. 400 crores, it will be about Rs. 1,160 crores to Rs. 1,200 crores roughly.

Madhav Marda: And is there any specific net debt-to-EBITDA targets that you guys have, that you want to reach by the end of this year, is there anything that you are working with?

Management: I don't think we have ever mentioned that we would want a specific target at a specific quarter or a specific year. What we have said that we will endeavor to ensure that our net debt EBITDA continues to remain in the range bound, which is depending upon the CAPEX plan, cash flow generation and depending upon the debt repayments. We would like to ideally keep it about between 1x to 1.5x ideally. There is no specific benchmark that I will have x number of percentage or x number of times by x number of quarters.

- Management:** And it also depends on the opportunities. So, based on the opportunities, based on the economic scenario of the country this would change.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** Congratulations Mr. Singhi and the entire team, just an excellent performance in difficult times. I think you gave the number for the blended cement sales in the quarter and overall total, and what was the contribution of our premium brand sales as a total of overall sales and non-trade sales?
- Management:** So I said 18%.
- Bhavin Chheda:** 18% was premium.
- Management:** Of the trade sales.
- Bhavin Chheda:** And what was the trade, non-trade mix in the quarter?
- Management:** It was roughly 75%.
- Bhavin Chheda:** Okay. And how much was the blended cement in overall sales?
- Management:** Around 85%.
- Bhavin Chheda:** Okay. Sir, also your variable cost is going down actually, good to see that. And you are guiding that you will remain among top three, and still there is a scope to reduce it further. And one point you mentioned was the blended cement going up, so I was wondering you are already at 85% so will this number inch again move up from here on going forward?
- Management:** Which number?
- Bhavin Chheda:** The blended cement sales, you mentioned one of the reasons for your variable cost going down was you keep on increasing blended cement sales. But once the institutional sales return, we will have some component of OPC and all that. So I was wondering if we can improve our blended sales further going forward.
- Management:** So, blended cement in nearby future may not go up beyond this, and it may come down to some extent because of higher percentage of non-trade sale. But at the same time there are various factors which are contributing for bringing down variable cost. So, like I said earlier also, we have been a leader in having one of the best EBITDA per tonne in last many years amongst first three companies, and it looks like that would continue.

- Bhavin Chheda:** Okay. And last thing I think I was also happy to see your lead distance below 300 kilometers. That's a wonderful job for such a large volume. So I think good to see that number. Thanks a lot.
- Management:** Thanks for the appreciation.
- Moderator:** Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.
- Jigar Shah:** Congratulations for wonderful results under the circumstances. I think most of my questions are addressed, I will ask only one question that's on sustainability. One of the objectives that Dalmia Cement has laid out is to become positive in terms of energy by 2030. So, can you throw more light on your strategy, how to achieve this? What all you would be doing over the course of next 8, 10 years? I don't think many companies have the audacity to have such a bold vision. So, I compliment you for that, but would like to know a little more of your strategy to achieve that.
- Management:** Yes. Thanks for appreciating the sustainability efforts also. We have created a roadmap to become carbon negative by 2040, and in that we have seen major levers. And one of the important levers is to avoid 100% thermal power by 2030. And there are hardly one or two cement companies globally who have taken this target and there are many other sector companies, but maybe 15 or 18 manufacturing companies who have taken target. And there's a group which is called RE100, it means Renewal Energy 100%. So, we have targeted that by 2030 we will not be using thermal power, but at the same time we will be using waste heat recovery power, we will be using the solar power or wind power. So, now efforts are on to, one, increase the capacity of waste heat recovery power. Secondly, now we are exploring possibilities of putting up solar power plants. So, that would help. And we are now waiting for opportune time for putting up a solar power plant. And we are hopeful that by 2030 or before that we should be able to generate and use power only from non-thermal power plants.
- Jigar Shah:** Sir, just going a little bit more into that, and if you can spare two more minutes. So, today what is the power requirement that you have? Out of which how much is thermal and how much is green? And by 2030, given your current plans or current capacity, let's say, what is available, say, by the next financial year, what kind of power requirement you will have?
- Management:** So, offline these figures can be shared. But at the same time, I am saying that this is a strategy we have already created, and we are working on it. And maybe in a year's time also you will also come to know that what are those effective steps which gives confidence to each one that we will be able to achieve our target of 2030 of non-thermal power.
- Moderator:** Thank you. The next question is from the line of Inderneet Agarwal from CLSA. Please go ahead.
- Inderjeet Agarwal:** Congratulations for a great set of numbers. I have a couple of questions. First on the government projects, mainly in the Southern states, Karnataka, AP, Telangana. Have you seen any change in momentum on awarding or execution of those projects? Or those remain as last year?

Management: Okay. So, I would say that there are two types of government projects, one major government projects are of road projects or NHAI projects. So those activities have started broadly fully. I would say that road projects are almost back to 95% normal. And in terms of other government projects which might be in the Southern states, except the Andhra which has started work on low cost housing and one more project, so the Andhra government has taken effective steps. But otherwise, there are not many projects which are coming up either in Telangana, Andhra, Karnataka or Tamil Nadu.

Inderjeet Agarwal: What about the Polavaram Dam project, has that picked up pace?

Management: It is continuing, and we are of course a major supplier, but at the same time, I think, because of lower number of labour available to them, the progress has slowed and that's why to some extent cement demand has come down. But it's just a matter of time, matter of period only, since this project has continued to larger extent, so it would come up and it would consume our cement.

Inderjeet Agarwal: Sure, that is helpful. My second question is on the pricing, so how has the pricing been in each of the regions that we operate? And how are the spot prices, say, versus June quarter as well?

Management: I would say that if you compare with June, in East these prices might have come down by Rs. 10 to Rs. 12, maybe some dilution even in South by Rs. 5 to Rs. 8, and there may be more dilution in institutional sales. So, it all now depends on demand and supply scenario, like in May and June normally also they have been good months, and since demand was comparatively lower, supplies were lower than the pent-up demand, and that's why we could get benefit. And since we were early mover, so we could get more advantage both in terms of volume as well as getting the right price.

Inderjeet Agarwal: Sure, that is helpful. Last question if I may, what is our thought process in entering into other regions where we are not present? On a medium-term to long-term basis, maybe North, Central, some bit of West, so how do we look at these markets? And is there any strategy that we are thinking about?

Management: In medium to long-term, yes, our presence would be there, and we will be exploring various possibilities of either preparing ourselves for greenfield projects where we have two, three mining leases, so we will be always ready for these areas also. It all depends on opportunities.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will be able to take the last two questions. We take the questions from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, specifically for Jayesh. I am not clear about this third line. So, we are saying we have not expensed it, so it's still capitalized, which means that costs related to that are not in our books. But I would assume, even the benefits related to that would not be in our P&L right now. Is that understanding correct?

- Management:** 100% right.
- Management:** Pulkit, you are right. It is not that it's not in our books, it is not in the P&L.
- Pulkit Patni:** It's not in the P&L, exactly. And could you quantify that as we move to the next quarter, what could be the benefit for that in terms of rupees per tonne? If there is a rough cut number that you could talk about.
- Management:** Difficult to pinpoint quarter by quarter, but because of the non-capitalization and not commercialized, about Rs. 10 crores to Rs. 12 crores impact is felt for the quarter, I would say.
- Pulkit Patni:** Got it. Maybe I will take it offline to get everything on that.
- Management:** Pulkit, probably it will be difficult, because how much of clinker gets used and how much is then capitalized and how much is put to use and what is the P&L in that, so that's why it's very difficult to give you that okay quarter-on-quarter or yearly what are the benefits which accrue on that.
- Pulkit Patni:** Okay. And after this now there is no third party clinker that we will be buying as of now?
- Management:** You are right.
- Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth:** Congratulation on a good set of number, and during a very tough time. Sir, I had two questions. One is that you said in initial remark that there was a reverse auction of the freight. So, can you elaborate what exactly so that we will be able to have? And whether that will continue further in future?
- Management:** Yes, it will continue. It's getting bid from the transporter and then finalizing it for the lowest bidding transporter. So these practices now we have started, and that would continue. So that would give a more clarity and transparency to the transporter also, and both would work together.
- Bharat Sheth:** Okay. So nothing from the railway side, correct?
- Management:** Right.
- Bharat Sheth:** Okay. Sir, if we can give some colour on a three year CAPEX on waste heat recovery, so that our aim to go more and more becomes a heat energy, I mean, efficient in the heat energy management as well as green power. So how much we have a plan to CAPEX on the heat recovery side?

- Management:** So, may be difficult at the moment to give you some guidance on long-term CAPEX. But at right time we will share those details.
- Bharat Sheth:** Okay. And sir, normally what is the payback period for whenever we invest for this heat recovery?
- Management:** It depends that at what cost you are at the moment buying the power, but then it can be anywhere from, say, four years to six years. But here, important is that you are able to bring down your CO2 emissions. So, in time to come when there may be any guidelines or some sort of carbon taxes, etc., which may come up maybe after five years, seven years, then you are able to insulate your organization from both problems.
- Moderator:** Thank you.
- Management:** So thanks, friends. Thanks to everyone for having patience and having shown interest.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.
- Vaibhav Agarwal:** Thank you. On behalf of PhillipCapital, I would like to thank the management of Dalmia Bharat for the call. Also, many thanks to the participants for attending the call. Stanford, we will now conclude the call. Thank you very much, sir.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.