"Dalmia Bharat Limited Q3 FY 2021 Earnings Conference Call"

February 05, 2021

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY 2021 Earnings Conference Call of Dalmia Bharat Limited for the Quarter and Nine Months ended December 31, 2020. Please note that this conference call will be for 60 minutes. And for the duration of this conference call, all participant lines will be in the listen-only mode. This conference call is being recorded and the transcripts of the same may be put up on the website of the company. After the management discussion, there will be an opportunity for you to ask questions.

Should anyone need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. As a reminder, all participant lines will be in-listen only mode.

Before, I hand over the conference to the management, I would like to remind you that certain statements made during the course of this call may not be based on historical information or facts and may be forward-looking statements. The forward-looking statements are based on expectations and projection and may involve a number of risks and uncertainties and other factors that could cause actual results, opportunities, and growth potential to differ materially from those suggested by such statements.

I would now like to hand the conference call over to Ms. Aditi Mittal – Head Investor Relations at Dalmia Bharat Limited. Thank you and over to you, ma'am.

Aditi Mittal: Thank you, Margret. Good morning, everyone. A very warm welcome to all of you in Q3 Earnings Call of Dalmia Bharat Limited. On the call we have with us Mr. Puneet Dalmia – MD, Dalmia Bharat Limited, Mr. Mahendra Singhi – Managing Director and CEO, Dalmia Cement Bharat Limited; Mr. K.C. Birla – F&A and Commercial Head, Dalmia Cement Bharat Limited; and Mr. Rajiv Bansal – Senior ED, MD's Office.

We will have the management opening remarks from Mr. Dalmia and Mr. Singhi, after which we will open the floor for questions. Over to you, Mr. Dalmia.

Puneet Dalmia: Good morning, everyone. It gives me great pleasure to welcome all of you to the Q3 earnings call of Dalmia Bharat. We sincerely hope that you and your family are safe and healthy. I am pleased with the performance that the company has delivered over the last three to nine months, despite the unprecedented disruptions posed by the pandemic. Cement as a sector has been amongst the fastest to come out from the impact of COVID related disruptions.

During the current quarter, cement demand has been robust, with our company achieving a 14% volume growth Y-o-Y. We are very excited about the opportunities that lie ahead given that the honorable Finance Minister, in her Annual Budget, has increased the budgetary allocation for infrastructure by an unprecedented 34.5%. The Budget has significantly increased the capital outlay for road transport by 34.9%, for railways by 36.3% and for metros by 8.7%. The setting up of new DFI with an initial allocation of Rs. 20,000 crores is also a big positive for infrastructure financing.

The pricing environment over the last few quarters has been volatile, given the pandemic situation in different regions of the country. However, we believe that the pricing environment over the next 12 to 24 months would be stable, given the uptick in demand momentum. Our expansion is on track and we aspire to be a pan-India player in the medium-term, having a meaningful presence in every region of our operation. We are on track to increase our capacity by 32% to 37.5 million tonnes in the next 12 to 14 months. And we are, as we speak, exploring a few proposals to double our existing capacity in the next three years. In line with our vision, we are also working on a long-term capacity expansion strategy and on formalizing a capital allocation policy for the company. The challenge that I see for the industry and for us is the increase in commodity prices over the last few months, especially pet coke, imported coal, diesel, and slag. This will be a focus area for us during the coming quarters.

Before I hand over to Mr. Singhi. I want to take this opportunity to give you an update on the mutual fund incident which occurred towards the end of 2018. As you are all aware, there was a fraud committed on us by Allied Financial Services, our DP, wherein he had forged the signatures of our authorized signatories, and fraudulently transferred our mutual fund units into his personal accounts and used them as collateral for his F&O trades. The Audit Committee of the Board had ordered a forensic audit to investigate the matter, and appointed M/s KG Somani & Co. to look at all aspects of the mutual fund transaction and give its report to the Committee. The forensic auditor has recently submitted its report, which was then placed before the Audit Committee and the Board in their meeting held yesterday. The report confirms that a fraud has been perpetrated upon us by Allied, by forging multiple documents and reports. Now that we have the findings of the forensic report and the Audit Committee, and the Board has deliberated on the same in depth, we felt it is now appropriate to give all of you an update on this matter. We have also filed a copy of our forensic audit report with the stock exchanges.

On realizing that a fraud has been committed against us, we immediately filed complaints with NSDL, SEBI and Economic Offences Wing of the Delhi police. The complaints were filed during January and February 2019. Since the units were stolen from our account, Economic Offences Wing, pending their investigation, issued an immediate order freezing the stolen securities. As a result of which, our mutual fund units are still lying intact and are frozen with ISSL, who was the clearing agent of Allied. Economic Offences Wing subsequently filed a charge-sheet in November 2019, wherein it was clearly established that a fraud had been perpetrated on us and that Allied, along with ISSL, had defrauded us. EOW also arrested Avinsh Mishra, the Promoter and MD of Allied, and also arrested the Business Head of ISSL.

SEBI ordered an independent forensic audit in the matter. The forensic report confirmed that Allied had undertaken these transactions fraudulently without any authorization from us. Further, based on the findings in the report, SEBI issued show-cause notices to both Allied and

ISSL. SEBI also cancelled the license of Allied, holding them responsible for the fraud. ISSL had written to SEBI in March 2019 seeking annulment of the F&O trade done by Allied on the ground that these were stolen units. After multiple proceedings before SEBI, NCL and SAT, now the matter is before the Supreme Court wherein the issue regarding jurisdiction of SEBI is pending. The Supreme Court in August 2019 permitted the trades subject to final outcome of the appeal before it.

While we continue to pursue the matter with multiple agencies, we have also internally taken some actions to strengthen our processes, internal controls, and to ensure that such things never ever happen again. We engaged E&Y as an independent third-party advisor to review our internal control and processes in the treasury function immediately on becoming aware of the fraud. Their suggestions and recommendations were presented and reviewed by the Audit Committee and implemented thereafter. Our legal and compliance team internally investigated all charges and allegations of collusion, and they did not find any such evidence or evidence of modified intent. The investigation was reviewed and presented to the Audit Committee as well. The Board, yesterday in its meeting, has advised us to take all appropriate legal actions as may be needed against the perpetrators of the fraud and for securing the release of the securities in our favor. The Board has also decided to appoint Ernst & Young, E&Y, as the company's internal auditor from FY 2021-2022.

I would like to conclude by saying that we have full faith in our regulatory institutions and in the judiciary, and we feel confident that we will be able to secure back the stolen units. I will now hand over to Mr. Singhi to share the key highlights of the quarter which has gone by.

Mahendra Singhi: Thanks, Puneetji, for great introduction. Happy morning, friends. Greetings from our side to you for a very Happy and Prosperous 2021. Greetings also for a very stimulating and growth oriented Budget because this Budget augurs well for the country, for infrastructure sector, as well as for cement sector and our company. I am very happy to share with you that our team has delivered a volume growth of 14% Y-o-Y with absolute volume of 5.8 million tonnes, which is the highest volume so far we have ever sold in the quarter. The demand environment has started becoming encouraging and it has shown almost double-digit growth in East, and I am sure the demand in South would also start improving. We are witnessing a volatile pricing environment on a quarter-to-quarter basis. However, on YTD basis, we are seeing a stable pricing scenario. If I talk of Q-o-Q, the pricing has seen a decline of 2% overall, however, the pricing is up by 2% on Y-o-Y basis and YTD basis.

We have been able to manage our trade percentage at 65% and our premium product DSP percentage has gone up to 18% and has seen growth of almost 60% on Y-o-Y basis. On the cost side, our Raw Materialcost has remained stable at Rs. 689 per tonne. But of course, the power and fuel cost has gone up to Rs. 850 per tonne and mainly itson account of increase in fuel prices as well as to some extent the coal prices also. Friends, you are aware now that pet coke spot prices have reached to Rs. $110 to $115 per tonne, in light of which we have already started switching to imported coal or whatever other fuel, which is economical, so that we are able to manage our cost very well. Having understood that volatility may be there in fuel prices, we had already taken steps to bring up the usage of alternate fuel, which we call green fuel. And I am happy to share with you that as of December quarter, we have been able to use 9% AFR during this quarter. And of course, this may be one of the highest in industry.

Also, we are now working on 30-megawatt capacity of waste heat recovery power generation plant, which is slated to be operational by FY 2023, which will boost both sustainability and profitability quotient. We continue to remain focused on better productivity and efficiency of our resources. Though, we have increased our volume by 14%, our absolute fixed cost has remained the same broadly and fixed cost per tonne has seen a decline of 9%.

We have seen a significant increase in our EBITDA margin performance, with our EBITDA margin improving from 19% a year back to 25% for the quarter. You would be happy to know that our absolute EBITDA for the quarter has gone up by 51% Y-o-Y, and EBITDA per tonne has improved by 33% to Rs. 1,172 per tonne. Friends, I am delighted to share with you that our PAT has improved seven folds to Rs. 188 crores during the quarter, though, I am aware the base was low. We have repaid gross debt of Rs. 626 crores during the quarter, which adds up to total repayment of Rs. 1,379 crores for nine months. Our net debt as on 31st December 2020 is 1,399 crores, as a result of which our net debt to EBITDA stands at 0.56 from 1.34 a year back. Here, I would like to say that broadly we have succeeded in our journey to bring down net debt to EBITDA so that we can make our balance sheet strong for future growth.

Given the uptick in the demand environment, and the increased budgetary allocation on infrastructure and in line with our vision to be a large pan-India player, one of our key focus areas would be the capacity expansion and to meet the growing demand of cement, which Puneetji has already highlighted. We have completed debottlenecking of 2 million tonnes during the quarter , because of which our capacity as on December 31st, 2020, stands at 28.5 million tonnes. We are on track to increase our capacity by another 32% to 37.5 million tonnes in next 12 to 14 months.

We have started commercial production of over 3 million tonne Rajgangpur clinker unit, and trial run production of Bengal Cement Works new grinding unit has also started. As mentioned earlier, we are looking at starting the trial run production of our Cuttack (KCW) grinding unit in Q1 of next year, Murli in the second half of next year and Bihar grinding unit in FY 2023, alongside the 30 megawatt of WHRS should also be operational during FY 2022. We are also exploring possibilities of putting up solar power plants so that, one, we can bring down the share of fossil thermal power, as well also bring down and manage the cost.

During the quarter, CCI had conducted a dawn raid and initiated investigation against many cement companies in India, including us. We, at Dalmia Bharat, have always stood for fair competitive practices. And we firmly believe that we have always conducted and continue to conduct our business in compliance with the provisions of competition laws and are providing full cooperation to all the authorities.

Dear friends, you will appreciate that our balance sheet is stronger than ever before, and we have added significant capacity alongside repayment of gross debt. We are now gearing up and finalizing our next leg of capacity expansion, including the addition of green power alternatives. As highlighted by our respected Finance Minister, the budgetary allocation towards infrastructure has increased by more than one-third. This allocation will have a multiplier effect, and our sector will be a key beneficiary of the same. We are quite excited at opportunities ahead and look forward to being a meaningful contributor to the Indian growth story.

We continue to focus our efforts on reducing carbon footprints. For nine months, our carbon footprints are around 475 kg per tonne of cement, which may be one of the lowest in global cement sector. We would fast-forward our journey towards carbon negative roadmap of 2040. And I am happy to share with all of you that our carbon negative roadmap and efforts to create leadership in this sector in this area has been acknowledged by United Nation's Secretary General and COP26 President Shri Alok Sharma also. We are fully aware of our philosophy of clean and green is profitable and sustainable.

Thanks friends. And now we will be very happy to share our thoughts on whatever questions you have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Congratulations on a great set of numbers, and also thanks for the detailed opening remarks. First question is on the Eastern market, just wanted your color on that. The demand continues to be very strong, but the same is not reflecting in the prices. So is it either some high leverage players trying to dump volume or some big large peers chasing market share? So what exactly is happening and how do we see the pricing environment shaping in the future there?

Mahendra Singhi: Okay. So I fully agree with you that demand has become better in East, and it has seen double-digit growth. But at the same time, with the capacity expansion of few players in Eastern region, everybody would like to definitely catch up with their capacity utilization. And on that account, in last few months, it has declined. Since these prices are broadly at the lowest level of last maybe five to seven years, so there is a good visibility that in future they should be better. And with a growing demand of cement, I am sure it would be better. And now we don't see much decline in prices in East.

Sumangal Nevatia: Okay. Second question is to Puneetji, sir, if you can share some early thoughts on capital allocation, because we are very swiftly moving towards net debt free status, much ahead of what we were envisaging a few quarters back. So now, I mean, our hands are also full with organic expansion plans, so is it something which we are endeavoring to go towards debt free at the gross level, like our large peers, or we are evaluating some meaningful inorganic or non-core investment in the next one to two years?

Puneet Dalmia: I think we will share a detailed proposal with you by the next quarter. But I can tell you that we are a cement company, and most of our capital will go towards funding cement growth. And we are also very clear that as we continue to generate cash flows, the debt levels have to be very reasonable, and we have to maintain a strong balance sheet in this phase of growth. So, all I can say is that bulk of our capital will go towards cement growth, and non-core areas are not going to be much. In fact, only if it is strategic, we are going to examine it, but it will be a miniscule percentage of our total cash flow.

Sumangal Nevatia: Understood. Just one small bookkeeping question, if I may squeeze in. Interest cost has been volatile, this quarter again it has increased by Rs. 20-odd crores versus a decline in debt levels. So, what is the sustainable run rate one should expect? And what sort of benefits will we get from our credit rating upgrade gradually?

Mahendra Singhi: First I would say, the reason for increase in interest cost is on account of the start of commercial production of our clinkerization line, on account of which there has been capitalization of Rs. 1,250 crores or something. And on that account, the loan pertaining to this is part of now the operating cost and that's why this interest cost has gone up. And maybe our interest cost may remain around this figure considering, one, that new units coming up, but at the same time, our continuous effort to bring down the debt.

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

Amit Morarka: So, my question is a follow-up actually on the capital allocation again. So, while obviously in the last decade or so, like you have focused on inorganic growth and entered into these new regions which we are seeing now, so now that we are seeing strong cash flows, will the priority be organic or will you still be focused around or looking for inorganic opportunities?

Mahendra Singhi: I would say that we have plans which we are now in the process of finalizing, so mainly it is all organic, which may mean brownfield, which may mean debottlenecking, and which may mean the greenfield plants also. But at the same time, yes, opportunities are always explored.

Rajiv Bansal: If I can just add to that. See, our vision is, and aspiration is to be a pan-India player, and a large pan-India player, and also have meaningful presence in every region that we operate. Now, given that there is an infrastructure cycle which has started, there are opportunities and the demand is likely to go up. So, we would look at all opportunities, whether organic, inorganic, to expand our footprint in the country. And in that regard, the capital allocation, as Puneet and Singhji said, we would want to invest most of our cash flows into expanding our capacity, into modernizing our capacity. And that is what the focus would be over the next five to seven years. So, we will come up with this very formal capital allocation policy, we are working on it as of now and we should be able to communicate and share with you in the next three to four months. But at this point of time, we are going all out for growth, we want to be a pan-India player, our vision is to be a very large player, and all the focus in the company is towards that right now. Thank you.

Amit Morarka: Thanks. Just one question now on the operating side, like power and fuel cost has risen sharply on a Q-o-Q basis, so I understand it could be because of the new clinker which is still stabilizing. So, just wanted to understand like also even pet coke inflation, is there any low cost inventory left now or you are down to the high cost pet coke now?

Mahendra Singhi: Some quantity is left of low-cost pet coke. But then definitely some quantity of new price pet coke would come, that is one. Secondly, at the same time we have taken efforts to use lignite in South. And thirdly, I would say, that our percentage usage of green fuel will go up, which to some extent will take care of the increasing cost of pet coke.

Amit Morarka: Okay. And has the new clinker line stabilized or will it take more time?

Mahendra Singhi: It has stabilized now, and that's why this commercial production has started. And I am very happy to share with all of you that it is a state-of-the-art facility in which the power consumption of per tonne of clinker would be one of the lowest globally. And at the same time, there is a possibility of having heat consumption also one of the lowest globally.

Moderator: Thank you. The next question is from the line of Inderjeet Agarwal from CLSA. Please go ahead.

Inderjeet Agarwal: A few questions from my side, firstly on capacity expansion. As Mr. Dalmia highlighted that we tend to double our capacity from current levels, so that is additional 20 million tonnes even after the current capacity expansion. So, what kind of limestone reserves do we have to cater to this? Or do we have to now bank on external limestone?

Mahendra Singhi: Let me share that we have limestone also at our existing plants, there also it can be expanded as a brownfield capacity. And at the same time, we have the limestone deposits in the new areas where we can put up greenfield projects. But surely in the short time, as Puneetji has shared, we will come out with a plan that this is how we are growing, and this is how we will put up the plant. And once you get to know the complete details, you will be happy to know that, yes, everything is doable.

Inderjeet Agarwal: Sure. That’s helpful. Second on the demand side, so you highlighted the East market we have seen double-digit growth, so in South market has there been a growth, or have we seen a decline in this quarter, for the industry specifically?

Mahendra Singhi: Yes, for the industry, I would say, Tamil Nadu might have seen a few percentage growth, but otherwise, in general, there has been degrowth. Now here the silver lining is that slowly the government demand in Andhra is growing and otherwise also it is growing. And second one is that the way now Budget allocation has been done for various road projects in Tamil Nadu, Kerala, so that would also help in better demand for Cement.

Inderjeet Agarwal: Sure, that's helpful. And lastly, can you give us some sense of what are the kind of fly ash and slag prices are currently versus say last quarter, what kind of inflation we are seeing over there?

Mahendra Singhi: Yes, there has been some increase in fly ash cost, a little bit only, but then in slag it has gone up. But we expect that with a utilization of various type of fly ash, we should be able to manage cost. And slag, it looks like that it has reached to higher level, so there may not be much possibility of slag cost going up.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: Sir, on this forensic audit report, I must congratulate the team in conducting this and putting out the report. One question on this, on slide 18, of the forensic audit report, there are certain information which are sought by the investigator but were not provided to them, which includes some, like, email exchanges of Mr. Vishal Gupta, record of meetings with Allied in the Dalmia Bharat office, etc. So can you just like make us understand why these were not probably furnished to them? This could have provided additional color to them, right?

Mahendra Singhi: So maybe what can be done is that maybe offline that can be shared with you in detail so that you will be able to appreciate the answer.

Swagato Ghosh: Okay, I will probably take it up with you guys offline. Second question is, the Finance Bill has a provision for disallowing amortization of goodwill generated as part of a deal. So I want to understand what the current goodwill is on our books. And also, your reading of this bill that will it be purely prospective in nature and the amortization what we have taken in the last three, four years, is there a chance for reversal of that as well?

Mahendra Singhi: First reading of this new provision is that it is prospective, but still it's being examined by our tax experts and we will come to know. But we are of the view that, one, it is prospective; and secondly, it talks of and also differentiates the type of goodwill. And at the moment, we have only the leftover goodwill part of around Rs. 670 crores. So, to us, it may be very difficult to give a definite answer, but whatever the information or the advice which we have received is prospective in nature. Now, we are just examining for the balance goodwill also how we can get the best result of it..

Swagato Ghosh: Okay, fair enough. And last question, sir, on our fuel purchase cost, some of the numbers that you have given. Do you think this is in line with industry or there was some error in our sourcing strategy that the increase in the fuel cost has come in earlier for us? Like, you have seen other company numbers and comments as well, so can you put our numbers into perspective?

Mahendra Singhi: I would say that we have broadly the right strategy on account of which we have been able to or source pet coke in time, as well as to switch to different type of coal also. Now, there may be a timing difference, so it may be a matter of a month or two. Because if you look or try to understand the visibility, which has been given by a few of the cement plants also, it's just a matter of months. But otherwise, we have the right team to foresee the trend and take corrective action. And another thing is that we are tracking the overall trends globally. And on account of which we are able to take broadly the right decisions.

Aditi Mittal: I wanted to just add a little to Swagato's question. I think Swagato, the slide that you mentioned on page number 18 of the forensic, there are three points mentioned there. Vishal Gupta is actually an ex-employee of the company, so we could not arrange a meeting with him We requested, but I don't think he kind of agreed on that. And since he is an ex-employee, we were not able to recover a lot of his old data, and we did provide support to the best of our ability. But as much as we couldn't recover, of course, they have made that remark. And the third part is on the recording of meeting with Allied officials at Dalmia Bharat office. Honestly, we have not documented these meetings in the way that probably the auditors would have liked us to document, and hence probably there is a gap in terms of record of meetings. We typically end up meeting a lot of people but not necessarily we make formal written notes, because it was a normal business dealing. I mean, we had not anticipated that we will get caught in this situation at some point of time later. So we did not have a formal record of meetings as to when the meeting happened and exactly what were the discussions thereon. So hence, they have made that remark and I hope that clarifies.

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

Gaurav Rateria: Sir, two questions. Firstly, what would be the clinker capacity utilization for the new plant we commissioned during the quarter? And what is the quantum of cost saving we achieved during the quarter because of this plant running?

Mahendra Singhi: Okay. I would say that the capacity utilization of the new plant is around 70%. And secondly, the cost advantage of producing clinker is about Rs. 70, Rs. 75 a tonne.

Gaurav Rateria: Okay. Sir, second question pertains to, again, on the capacity expansion and capital allocation. So just want to understand, when you say double the capacity, is it from 28.5 to 57, is that the way you are thinking? And secondly, what is the appropriate capital structure one should think about Dalmia from a medium-term perspective from a net debt to EBITDA or net debt to equity, what is the appropriate capital structure one should think about? Thank you.

Rajiv Bansal: Let me just give the second part of the answer first and then Singhji will talk rest. See, one is that we are talking about 37.5 million tonne capacity, we are on track for the next 12 to 14 months, I think and it is not 12 to 24 months. So we are clear, we are on path to reach 37.5 in 12 to 14 months. We have a few proposals that we are evaluating right now, and we feel very confident there, on the advanced stage of finalizing, and we feel that we should be able to almost double our capacity in the next three years from here on. Having said that, on the capital structure, I think, see, it is not about what the right debt to EBITDA should be or debt to equity should be, this is a capital heavy business, we need to have a very strong capital allocation policy where, whatever cash flows we have, we utilize for the growth of business.

As long as we keep seeing the growth opportunities and expansion, I think we should invest the money back in the business. We need to maintain a good ratio of debt equity, it's not that debt is bad, having a low cost of debt is always lower than the cost of equity. As long as we follow the capital allocation policy and we allocate money and deploy money based on what our capital allocation policy that should be shared with you, I think that's the right thing to do. So at this point of time, I think what we are looking at is having a good balance sheet, strong balance sheet. If we get good opportunities for expansion, some inorganic opportunities, of course, we will raise debt as long as we have confidence and we know how we are going to spend the money for the future growth of the business and how we are going to repay the debt. So that's what we are telling, we will come back with a very formal capital allocation policy in next three to four months. But we are not anti-debt, we are not saying we need high levels of debt, I think it's all based on how we see the growth opportunities and how we see the investment climate.

Mahendra Singhi: And you know, this doubling the capacity would be from say 28 million tonnes to double the capacity, which may be around 55 to 60 million tonnes.

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

Bhavin Chheda: Congrats to the management team for the overall operational performance. And I think it is an excellent forensic report I was going through, which has been uploaded on the website. Just a few questions on the operational side, so clinker expansion is complete, right, your clinker capacity now is 19 to 20 million tonnes including Murli?

Mahendra Singhi: Broadly yes.

Bhavin Chheda: And just an update on the Murli, if any numbers were included of the Murli in the quarter? And if not, when is the commercial production planned for the Murli capacity?

Mahendra Singhi: So I would say that the numbers of production would come in second half of FY 2022. We are going to start trial productions in the month of May, June on cement and maybe July, August on clinker. So, we will be ready for full production of Murali in second half of FY 2022. And then only these numbers would be part of operations.

Bhavin Chheda: And what was the capital expenditure number in the quarter in first nine months? And how much is pending for getting our capacity to 37.5, probably by March 2022? And I am assuming that includes some expenditure pending on Murli also to further modernize it, so what is the number from now to March 2022 to reach 37.5 and how much you did it first nine months?

Aditi Mittal: So during the first nine months of this financial year, we spent around Rs. 1,080 crores of overall in CAPEX, of which project pride nine months number is around Rs. 350 crores, in Murli along with the first payment tranche of Rs. 400 crores, the number is around Rs. 450 crores, and routine CAPEX is around Rs. 300 crores. Then moving on for the next year budget for projects Pride we still have an overall Rs. 1,000-odd crores to spend, and this Rs. 1,000 crores also include the expenditure that we will be doing on the 30 megawatts of renewable capacity. So that Rs. 1,000 crores will majority come in FY 2022, with a little bit left in FY 2023 for the completion of Bihar grinding unit. And in Murli, over and above the Rs. 400 crores that we have already paid, the budgeted is another Rs. 400 crores, of which we spent about Rs. 50 crores till date, and the remaining can be spread over the next 12 to 18 months.

Bhavin Chheda: Okay. So you are saying Rs. 1,000-plus crores more or less Rs. 400 crores for Murli, so Rs. 1,400 is spending roughly to reach around 37.5, right?

Aditi Mittal: Correct.

Bhavin Chheda: Okay. Two more questions. One is on, what the incentive in the quarter and nine months? And last one was, what was the lead distance during the quarter and nine months?

Aditi Mittal: So, we have accrued Rs. 24 crores of incentives during the quarter, and as against which we received Rs. 45 crores during the quarter. And for the nine months, the accrual and the receipt are around Rs. 60 crores, for both. And on the lead distance, this quarter we have also seeded into Maharashtra and some markets in the central region, so our lead distance has gone up vis-à-vis the last quarter, but it continues to stay below 300 kilometers.

Mahendra Singhi: So let me be very specific. The lead distance of this quarter is 277 kilometer, and inspite of higher volume of 14%, the Q3 of FY 2020, the lead distance was 285 kilometer. So, we have tried to capture the nearby market also, even with the increased market share.

Moderator: Thank you. The next question is from the line of Girish Chaudhary from Spark Capital Advisors. Please go ahead.

Girish Chaudhary: Firstly, it is a follow-up on the Murli Industries. Any update on the augmentation of limestone reserves for this plant? How much is available currently and how much more is required for long-term sustenance, any comments on this?

Mahendra Singhi: Yes. We have good news. One, already we have 27 million tonnes reserve which is all mines have been validated now. And what we have seen is that the proper prospecting was not done and that's why the overall reserve has not been calculated properly. So, we have already started exploring these mining areas and we are quite hopeful that the limestone reserve may go up by 30% to 50%. That is one. And secondly, there are prospects of getting nearby limestone reserves also, as well as the supply also. And as an alternative also, we have taken one limestone mine in auction, which is somewhat away from this place. But that's also available as and when required maybe after, say, 20 years or so. But the point is that we are fully confident of having full reserve for Murli to continue for decades and decades.

Girish Chaudhary: Great. So, that's great to hear. But in terms of the limestone quality, earlier there were reports which we read that the quality is slightly inferior to the normal cement grade limestone. So, any thoughts here, how much incremental cost is required to increase the quality?

Mahendra Singhi: Earlier the problem was the quality of the management, quality of the people. So, now, we have understood that how we can mine properly the good quality limestone, but yes, to some extent, we may need sweetener for which arrangements are already in place.

Girish Chaudhary: Thank you. Okay. Sir, one more, just on the volume performance. So, it's great that we have had a back-to-back quarters of strong volume performance compared to similar peer set. Here just wanted to understand what is really driving this, what is the team doing differently to generate this performance? Is there a price cutting strategy or any penetration from a new market? So, any comments?.

Mahendra Singhi: Sure. So, basically, one, the team spirit; second, the commitment towards premium quality product; and as I shared that our premium quality product DSP, it has grown by 60% Y-o-Y and it's sure the trade is going up, and we are fully focused on the blended cement that how it can be done. And the way now we have started since a few years is, how to give the better technical services also and the human relationship. I would say that the work our team did in this COVID time of March to particularly September or so, the great alliance has started happening, and on account of which we are getting preference.

Puneet Dalmia: I want to add to what Mr. Singhi just said. I think we are seeing a trend in the distribution to move to stronger players. And I think we are also seeing, in consumer, a trend towards more trusted brands. So, I think there is a shift from, let me call it, unorganized to organized, and from a weaker company to a stronger company, both in distribution as well as consumer preference. So, a lot of this is being driven by rural demand. And we are seeing that premium products are getting the maximum traction in rural areas where people have a trust deficit with weak companies or weak brands. So, I think both in distribution and consumer we are seeing a distinct shift in the area.

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

Rajesh Ravi: Congratulations to the team for a strong performance. While most of my questions are answered, again on the South and East market, if you could give some flavor on the growth that we have seen in this quarter, is it growth across both the markets or is it largely led by the ramp-up in the Orissa capacity?

Mahendra Singhi: I would say that in Eastern market there has been growth, on account of which we have been able to do better. At the same time, even in South also, our performance has been largely better than many other brands, so that has also helped us in getting 14% overall volume growth for the company. So, like Puneetji has said that now with our service to customer by supplying material in time as well as the affinity for the brand, that has played a good role. And South, we do expect now that the demand should be better. And on that account, South market should also be better in future.

Rajesh Ravi: Okay. So you would have gained market share in both regions, is that fair to assume?

Mahendra Singhi: You are right.

Rajesh Ravi: Right. And if you can give some understanding on your share of trade sales and blended cement, and share of DSP and traded cement?

Mahendra Singhi: Sorry?

Rajiv Bansal: Share of trade, non-trade, and blended cement, and DSP's premium cement share in the trade volumes?

Mahendra Singhi: So what I would say, in totality, that is 65% trade for the group. And secondly, our blended cement is 78%, .

Rajesh Ravi: And premium cement share would be how much, DSP?

Mahendra Singhi: It is 18% in trade.

Rajesh Ravi: And year-on-year you said that there is a 60% growth that you have seen in DSP.

Mahendra Singhi: correct.

Rajesh Ravi: And again, DSP was launched in the South, and how is the South and East mix for you in DSP, are you seeing similar share in the trade sales in both the market?

Mahendra Singhi: Yes, yes. Though we were a bit late, but now after launch, it has started picking up. And now people have preferences for premium brands, which you may see in general, also in cement industry. And that's why we would be frontrunner in this segment.

Rajesh Ravi: Okay. And another thing is, on the cost you have mentioned that the slag prices have gone up 10% Q-o-Q and for the quarter, how is the situation now? Do you see anything easing out on that front?

Mahendra Singhi: My take is that for a quarter or two, these pet coke prices would remain higher. But at the same time, the efforts which we are making of increasing green fuel percentage, shifting to lignite or somewhere on other type of coal also, that would help us to mitigate this risk of higher cost.

Rajesh Ravi: No, on the slag prices, any thought?

Mahendra Singhi: On slag prices, broadly now it should remain stable, because in this period whatever new capacities were to come, and maybe one more grinding unit would come, so that would get all stabilized and these slag prices should remain broadly stable.

Rajesh Ravi: And fly ash, how was the price Q-o-Q?

Mahendra Singhi: Not much difference, except somewhere a difference or increase in cost a little bit on account of higher diesel prices, but otherwise not much.

Moderator: Thank you. The next question is from the line of Pritesh Sheth from Edelweiss Wealth. Please go ahead.

Pritesh Sheth: We are really thankful for clarifying mutual fund issue. Just would want a similar update on your IEX investment, so is offloading some part of the stake, part of the capital allocation plan for the new expansion?

Rajiv Bansal: That's right. I think IEX is an investment that we are looking very closely at. And what we thought is, instead of taking a piecemeal decision, we would make it as a part of the whole capital allocation discussion that we are having. So once we have an idea about how much money we need over the next 12, 24, 36 months, and how the deployment of cash will happen, and probably it is the best to look at the IEX investment in that light, you are right.

Pritesh Sheth: Great. Thank you. And one again on the cost front. So your other expenses have seen a sharp jump on quarter-on-quarter basis, is it like business is back to normal, or there was some one-off which we need to know of in the other expenses?

Mahendra Singhi: It is not majorly a one-off, only thing is that now for strengthening our brand and strengthening and taking care of the new volume, which is to come up, the major expenditure has gone up on advertising, marketing.

Pritesh Sheth: Okay, fine. So going forward, this run rate would continue or it's going to get normalized to some Rs. 400 crores kind of level?

Mahendra Singhi: I may not like to give that sort of guideline, but what I would say that we would continue to spend to further solidify our brand, because you are aware that with this new capacity, we would need to sell the cement in the same market, and for that more marketing expenses would be required.

Pritesh Sheth: Right, thank you. And just one suggestion, so you for this quarter haven't reported your slag price and fly ash price changes, like you report normally. So I would hope from next quarter we give information in presentation.

Mahendra Singhi: Thanks for your suggestion.

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

Jigar Shah: Good morning and congratulations for excellent results, and also noted some of the ESG developments. My question is on the sustainability measures that we are taking, which are very laudable. Can you give an idea that by 2025 and 2030 what are your renewable energy commitments? What it would be as a percentage of total energy requirements? Also, how much will be the blended cement percentage over the next five or 10 years? And any other update that you can give on carbon capture, etc.?

Mahendra Singhi: Yes, one, I would say, our commitment is to be using 100% renewable energy by 2030. Now, government might be also in process to create some policy for captive renewable energy for industries that may help in further speeding up our investments in solar power and wind power. And there is a specific figure in regard to that by 2025 we may be at 45% or 50%, but exactly we can definitely share with you, but 2030 we are sure to be 100% on renewable energy. Second, we are also working on a green fuel and slowly, slowly this percentage should go up, which would also help us in bringing down our carbon footprints. And thirdly on carbon capture and utilization, the process is on, project is on. Feasibility study by Asian Development Bank is going on, and shortly we would come up that what is the action plan, what is the project timeline. Otherwise, I would say that the way we are making efforts to ensure that, yes, we always remain the greenest cement company globally.

Jigar Shah: Just one more point on that as a follow-up is that, you are still expanding capacity, you just mentioned almost doubling of capacity from here. So, you are obviously going to consider those emissions as well because they will be additional. And what kind of CAPEX will be there for renewables, carbon capture and other requirements? So, what kind of capital expenditure may be required? I am sure you can't give exact details, but roughly. And to what extent your operational costs can come down, because if you are at 50% or 100% renewable energy, then the cost should come down per unit quite significantly.

Mahendra Singhi: You are right that cost will also come down, carbon footprints would also come down and when international carbon market also matures, that may also give greater benefit to us. At the same time, since like what Puneetji and Rajiv has also said, that we are in the process of now creating capital allocation framework as well what sort of CAPEXs, which type of plant, etc., in some time you would come to know all those factors.

Moderator: Thank you. The next question is from the line of Raghav Maheshwari from AMSEC. Please go ahead.

Raghav Maheshwari: My question is, in the South market the bill prices have increased or the RDs have increased in that market? Because the realization in the South is under pressure, so what is the reason behind it? There is a PE increase in that market?

Mahendra Singhi: We are concerned with what net sales realization we get, and according with that, that gets reflected in our books. So, there may be Rs. 3 to Rs. 5 difference here and there if we talk Q-o-Q. But otherwise, if we look at Y-o-Y, there has been a price increase in South.

Raghav Maheshwari: So pricing pressure is more in Eastern market as compared to Southern markets?

Mahendra Singhi: You are right, broadly you are right, because in East new capacities have come up, but the good part is that it looks like it has bottomed up, and definitely with the increased demand prices are always part of demand and supply scenario, so we are quite hopeful.

Raghav Maheshwari: So, in the current scenario coming capacity is like big players are coming in that region like Shree, so how will you look in the future for the cement pricing, particularly in Orissa market? Because there are two capacities which is Ultratech and Shree spending in that market.

Mahendra Singhi: Yes. So including us, we have already started expanding our footprint. And from demand point of view, I don't see any challenge.

Raghav Maheshwari: And one last question, what is the schedule commissioning for your grinding unit in Orissa?

Mahendra Singhi: So, in Orissa it will come in Q1 of next year and we will start our trial productions and then commercial production will start. So, we are quite hopeful. Though we are aware that because of this COVID-19 situation there has been a delay in commissioning of our grinding mills.

Moderator: Thank you. The next question is from the line of Uttam Kumar Shrimal from Axis Securities. Please go ahead.

Uttam Kumar Shrimal: Sir, what has been the gross debt?

Mahendra Singhi: So, gross debt is Rs. 4,587 crores. And net debt is Rs. 1,399 crores.

Moderator: Thank you. Next question is from the line of Kamlesh from Prabhudas Liladher. Please go ahead.

Kamlesh: Sir, just one question on the part of like, say, how the realizations are moving now as compared to the previous quarter? So, are they down significantly currently, how is the trend now in this particular month on the quarter so far?

Mahendra Singhi: Like I said earlier, in East if we talk on quarter-to-quarter basis, then maybe few rupees down; and in South, maybe again Rs. 2 to Rs. 3 down, but otherwise still we have February and March month. And with good demand it may be better.

Kamlesh: Is it compared to December month or the quarter average, Q3 average?

Mahendra Singhi: I would say Q3 average.

Rajiv Bansal: So if you look at Mr. Singhji's opening remarks, he did say that on quarter-on-quarter basis we have seen the pricing decline of 2%, though on a Y-o-Y basis we have seen an increase of 2%. So I think the right thing, you will have to look at the pricing on a longer period of time, because large part of it likely be depending on the business mix, region mix and many other factors. But I think, important is, over the next 12 to 24 months, given the demand uptick, you expect the pricing to be stable

Kamlesh: Yes. And sir, secondly, on the WHR or the green power energy, so if I see our current capacity of nine megawatts, it should be going up to 39 megawatts. So even after this commissioning, our share of the WHR would be roughly around 15% to 16%. So that's relatively much lower compared to what our peers are. And given the fact that we have relatively lower share of grinding units as compared to what our peers are, so there may be roughly around 35% grinding units where we are around 23%, 24%. So even despite this expansion, our waste heat recovery share would be going up to 15%, 16%. So that's not significant what our peers are targeting, like say 40%, 45% for one of the peer and 34%, 35% for the largest peer in country. So like, I am saying about going after this expansion as well, 39 megawatt?

Mahendra Singhi: Yes. So, let me just share with you that all our kilns will have waste heat recovery power plant, except the kilns which are in Tamil Nadu. Because in Tamil Nadu, because of moisture in the limestone, the efficiency of these plants is not much. And on that account, there will be little scope for WHRS. But otherwise in two years' time, all kilns will be with the WHRS. And in addition to this, our share of green power would also go up on account of solar power. Already, we have in fact the solar power plant also in grinding unit of Bengal and Orissa.

Kamlesh: Thank you. And lastly, sir, any part on the statutory auditor as well? So, I commend for this move appointing E&Y as the internal auditor. So will there be any move on the statutory auditor side, or it would be l based on the rotation basis?

Mahendra Singhi: So we had already thought of this part and then accordingly Chaturvedi & Shah were inducted in addition to other one as statutory auditors. And we are quite happy with it. But yes, it's always under review as and when required. At the moment, we are quite satisfied.

Moderator: Thank you. We will take one last question from the line of Pavas Pethia from Enam Asset Management. Please go ahead.

Pavas Pethia: Firstly about this forensics report. So were we required or kind of obligated by any agencies to come up with this? Or it was just a Board initiative? And how does this kind of change our case in Supreme Court, does it speed the case resolution or…? Just wanted to understand that part.

Mahendra Singhi: So, if you look also at SEBI's forensic report, which is done by independent forensic auditor, then also you will find that our case is getting strengthened. And we are quite hopeful that we will be successful quite early. And, of course, it is also obligated by stock exchange rules to share forensic audit report, and otherwise also, for better corporate governance practices we have shared everything with the stock exchange, and that is how it has been shared with all of you also.

Rajiv Bansal: Just to add, there is no regulatory requirement for a company to conduct forensic investigation or audit. This was the prerogative of the Audit Committee. Audit Committee when they evaluated and they looked at the magnitude of the fraud and what had happened, they wanted to know the details. They all looked for independent forensic party, they hired the firm who will do the audit, the report was placed to the Board. So it was absolutely an initiative of the Board, the Audit Committee, and the company to conduct a forensic audit for everyone to know exactly what happened. The filing of the report with the SEBI, as per the latest amendment, is a mandatory requirement, that is the reason the report has also filed in SEBI, and also because we have nothing to hide. The fact is, there is a fraud perpetrated against us and we want to know exactly what happened, why it happened. And as Puneet said and Mr. Singhi said in their opening remarks, we believe that we have a very strong case, and we should get the possession of the units very soon.

Pavan Sethia: So, does this kind of speed of the process in Supreme Court, whether this will be admissible in Supreme Court as an evidence of fraud?

Rajiv Bansal: I think the matter is sub judice, I think it would not be appropriate for us as a company to comment on whether it makes our case stronger or weaker. I think the idea is for us to share what we know with everybody, with all our stakeholders, at all the time. And this was a really important investigation which the Board has conducted. And we felt it is appropriate to share with everyone. Now, it's up to the courts and the judiciary and regulator to look at this report and get their own assessment of it.

Pavan Sethia: Okay. And lastly, this change of goodwill being not allowed for the tax purposes, what kind of cash flow impact we will have on this? And what's the tax rate going forward you can assume?

Mahendra Singhi: Maybe once we examine the case in totality, then definitely we would come back to that.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Puneet Dalmia for closing comments.

Puneet Dalmia: Thank you very much. Once again, thank you all for your participation in this call. I am very optimistic about the future of the company. We see really huge growth in infrastructure spending, we see the economy bouncing back and a strong recovery. And we have strong expansion plans, which we are going to share with you in the coming quarter. And I think we are fully geared up to participate in the growth that India offers. Also, I think, we continue to engage with all our stakeholders to get more feedback, and on how to further improve. So please keep your suggestions coming. And we look forward to engaging with you. Thank you very much.

Mahendra Singhi: Thanks, friends, for showing interest in our organization, and thanks for your guidance.

Moderator: Thank you. Ladies and gentlemen, on behalf of Dalmia Bharat Limited, this concludes this conference. Thank you for joining us. And you may now disconnect your lines.