"Dalmia Bharat Limited Q2 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings Conference Call of Dalmia Bharat for the Quarter Ended September 30th, 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 over to Ms. Aditi Mittal – Head Investor Relations at Dalmia Bharat Limited. Thank you and over to you, ma'am.

Aditi Mittal: Thank you Janis. Good morning everybody and a very warm welcome once again, on the call we have with us today Mr. Puneet Dalmia – MD, Dalmia Bharat Limited. Mr. Mahendra Singhi – MD and CEO, Dalmia Cement Bharat Limited and Mr. Rajiv Bansal - Senior ED (MD's office).

Without taking much time, I will now like to hand over the call to Mr. Dalmia for his opening remarks. Over to you sir.

Puneet Dalmia: Thank you Aditi. Good morning, everyone. It gives me great pleasure to welcome all of you to the Q2 earnings call of Dalmia Bharat. We sincerely hope that you and your family are safe and healthy. I hope that all of you would have had a chance to look at our results and the presentation by now. And if not, it's available on our website. This quarter, we have seen a great all-around performance, with the company achieving its highest ever quarterly EBITDA at 702 crore. We have delivered an industry leading EBITDA margin of 30% and volume growth of 7% on a Y-o-Y basis. We have always run a tight ship when it comes to cost and one can see that again in our industry leading EBITDA per tonne of Rs.1457 per tonne. At Dalmia we have consistently added to a capacity from 1.2 million tonnes in 2004 to 9 million tonnes in 2010, which is a 7x increase in the previous decade. And then from 9 million tonnes to 26.5 million tonnes from 2010 to 2020, which is a 3x increase in our capacity.

This quarter also marks the completion of Murli Industries acquisition under IBC, which adds another 3 million tonnes to our installed capacity and expands our manufacturing footprint in the state of Maharashtra.

Moving on to our capacity expansion in East:

A state-of-the-art clinker line of 3 million tonne at Orissa has been commissioned in October 2020. And the grinding capacity of around 5.5 million tonnes is said to be operational by end of FY21. With our Bihar grinding unit planned for end of FY23. We are targeted to be a 37.5 million tonne company over the next couple of years.

The capacity expansion has been achieved without losing our focus on costs and margins, while also maintaining the strength of our balance sheet. We continue to drive our variable cost and fixed cost down consistently over the quarters. And we have demonstrated the same by delivering industry leading margins, which I've already mentioned above. Over the last three years, we have continuously paid down our gross debt and has been able to bring down our net debt to EBITDA below one at 0.87 at present. In fact, we are adding almost 40% of our existing capacity on the back of our internal accruals while continuing to pay down debt. Capital allocation discipline is of prime importance to us. You will be glad to know, that in our current phase of growth, the capacity expansion both organic and inorganic is being done at a cost of less than $60 per tonne, which is much lower than the cost of current installed capacity of 26.5 million tonnes which was created at $84 per tonne. This is due to the fact that we acquired Murli and Kalyanpur assets under the insolvency and Bankruptcy Code and we have created Brownfield capacity in East India.

During the quarter, we also successfully completed a share buyback, which will entail long term benefit to all our shareholders by enhancing the EPS in a sustainable manner. We hope to continue and deliver industry leading performance while having our new capacities up and running with a gradual pick up in the utilization levels. All this is not possible without the contribution and efforts of a great management team. Over the years, we have strongly worked on building a great team of professionals. And we now have a new addition to that. Rajiv Bansal, who is also there on the call with us. Rajiv is the ex-CFO of DXC Americas and prior to that, he was the CFO of Ola, and Infosys respectively.

On the macro front, while things have improved over the last two months on an incremental basis, we are seeing a second wave of COVID sweeping across Europe and America. And we will wait and watch how things will pan out in India. What gives us confidence is the fact that our industry was the first to see a rebound after the initial lockdown relaxations. And we continue to remain cautiously optimistic about the future. I will now hand over the call to Mahendra Singhi for his opening comments on the operational performance. Thank you.

Mahendra Singhi: Thanks Puneet ji for leading from the front. Happy morning friends. It's a great pleasure for me to again, welcome you all. I hope you and your family members are staying safe and healthy. So, friends while we all recognize that the last seven, eight months have been a very testing time for all of us, in light of COVID-19 situation and not only in our country, but globally. But now we feel particularly India, the onset of the festive season, homecoming of health, prosperity, and happiness in all our lives. And I wish very happy festival time Happy Diwali to all of you.

At Dalmia it is our constant endeavor to channelize our effort and energy into maintaining the highest standards of safety and security of all of our stakeholders, including most importantly our employees and their family members and we continue to take all possible measures which enhance their health and wellbeing. And this philosophy of taking care of all stakeholder has purely helped us in rebooting and coming back with our operations very well. Now, moving on to the quarterly results. Friends you must have seen the great performance of our organization and we could achieve a Y-o-Y growth of 7% with sales of 4.8 million tonne, this demand growth is on the back as we expect the bounce back of demand in eastern states especially the rural areas. Whereas the South region remains laggard for most of the quarter from early September now, we are seeing also some improvements. Our realization on Y-o-Y basis has gone up and if you look at H1 number also has gone up subsequently but now with this seasonal weakness especially on account of heavy monsoon in Eastern region, we are seeing drop on QOQ basis. Further, we have also now aided that the institutional sale which was lower in Q1 on this account also the overall percentage of institutional sales had gone up and because to some extent on pricing.

We have been able to improve in a big way on variable cost part and our variable costs has gone down by 14% and we are quite happy that whatever efforts we have been making while keeping in mind, in focus the green journey which we have taken long back, is year-by-year benefitted us. Alongside the commodity pricing we have seen benefits of some of our strategic initiatives such as usage of green fuel from 6% in Q2 FY20to 9% in this quarter. I was saying that our variable cost has gone down by 14% on Y-o-Y basis and this has been the result of constant efforts for our team as well as our vision on account of which we have been able to bring down our carbon footprints on account of which we could increase share of blended cement, on account of which we could improve cement clinker ratio. And on top of it, we have been also able to increase the usage of green fuel from 6% to 9% in Q2. We are quite focused on taking care of fuel and we would continue to increase share of green fuel which will also take care of some increase in cost of petroleum coke or coal.

Needless to say, we are monitoring the fixed costs with a razor sharp focus. Friends, I’m happy to share with you that we achieved our highest ever quarterly EBITDA of Rs.702 crores on an absolute basis, this translate to Rs.1457 per tonne EBITDA, which is one of the best for us also. Our finance cost had reduced substantially by 29% to 73 crores and our PAT has increased six fold to Rs.232 crore. During the quarter, we have repaid gross debt of Rs.246 crores and overall in H1 Rs.754 crore. Now, our net debt to EBITDA stands at 0.87.

This quarter also was a landmark as we also successfully completed the share buyback and have bought back 61.66 lakh share from the market for Rs.329 crores. Total number of fully paid up shares now stands at 18.67 crores. This exercise is expected to give a boost to our EPS on a sustained basis. On capacity enhancement front, I would like to mention which has also already mentioned by Puneet that during the quarter we completed the acquisition of Murli Industries under IBC and have discharged already the full consolidation of 410 crores. It is expected that the revival of the plant should be completed in 9 to 12 months from the end of last quarter. Our best of the class clinker line of 3 million tonne at Odisha has been now commercialized from 1st October. The 2.25 million tonne grinding unit our Bengal grinding unit and 1 million tonne debottlenecking at Bokaro is expected to begin trial run production by December 20 and another 2.25 million tonnes grinding unit in Cuttack at KCW by April 21. As part of the enhancing capacity in East and the efficiency which we have to bring in we are also adding 30 megawatt of waste heat recovery plant for green power, which should also be operational by March 22.

As you may be aware, our company is the first cement company globally to commit for both RE100 and EP100 which means that we will be using 100% renewable energy by 2030. And hence, over the next decade you can watch us progressively increase the share of renewable energy in form of both solar and WHRS. We are continuing our green journey and we are continuing with our philosophy of clean and green is profitable and sustainable. Friends, I'll be now happy to open the floor for questions. Thank you and all the best.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Just two questions from my side, firstly on this Murli now that it is under our hold, is there could you share the CAPEX that you would need to do to bring the plant back into operation, to commission the plant back and how comfortable are we on the limestone reserve for this asset and on Murli itself when does it start to contribute to the volume, then I'll get to my second question after this. Thank you.

Mahendra Singhi: Thank. First, we have already now started reviving the Murli plant and we are expecting that in 9 to 12 months basis we should be able to start this operation and that will add value to our overall operations and revenue. We would be investing Rs.400 crore for its revival in maybe 12 to 14 months time, because it will also include some CAPEX on WHRS and something, but we are quite hopeful that we'll be able to complete well in time. Secondly, on mines and limestone reserve part we are quite confident as well, we are getting full support from the government to augment more and more resources so that we always feel fully confident of limestone capability to produce regularly from Murli.

Gunjan Prithyani: Sir is there anything you can share in terms of how much is the visibility in terms of number of years that we have limestone reserves tied up for, because that was one concern when this transaction happened. So, if you could offer us any comfort around it, it will be great?

Mahendra Singhi: I would say that at the moment there is a visibility of 20, 25 years because we know how to source the limestone and how we know that there are nearby areas also from where also we will be able to get so as to further add to our limestone reversers, so we are quite confident.

Gunjan Prithyani: Okay, the second question more, slightly longer term, this basically marks our presence outside of, South and East market so a new market on that perspective. Now, if we think more from next three to five years, how should we think about this whole diversification out of the home market, is it, are we looking to add more in these geographies. And what is, is it a top priority and how would you pursue this, this either organic and inorganic, some thoughts around these diversification over the next three to five years?

Mahendra Singhi: I may say that, we have mining lease in MP, and one mining lease in Rajasthan. So there we will definitely explore possibilities of putting up a green projects. And that may help us in having our presence in North India as well as in Central India. So definitely, it's a matter of three to five years, but surely we'll have our presence in both these regions.

Gunjan Prithyani: And how big would be these anything you can share at this stage?

Mahendra Singhi: It's quite preliminary but normally, these plants are now put up within the capacity of 3 million to 5 million, but it's quite preliminary now.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: I just wanted to clarify and take forward the previous question in terms of the geographical expansion into North Central market. As we set up these greenfield capacities or either organic or inorganic over the next couple of years how do we see debt kind of moving ahead we have been seeing a reduction in gross debt levels, but do we have any targets in mind to reduce debt further and by when and what level if you can elaborate on that please?

Mahendra Singhi: So, one if the long term matter say like three to five years and we will be always working with healthy balance sheets. So, one should not have concerned about debt because one, because of increased capacity, our revenues will go up, our profitability will go up, our cash surplus will go up, so there should not be any concern about debt and we are always working with healthy balance sheet.

Bhoomika Nair: Okay. So the next question is to Mr. Dalmia. There has been discussion around, IEX divestment, and which has been pending for a while, if you can just kind of give some clarity on what we are looking at from a perspective of IEX divestment, and any timelines to that as that could be a significant reduction in the gross debt level?

Puneet Dalmia: Look, power and fuel is a significant part of our cost structure. And IEX gives us a good understanding of the power markets to us, this investment was made four to five years back, and it has given us 2.5 times return over the years. Having said that, I want to say that we evaluate our investments on a regular basis, we understand your concern and be rest assured that we will continue to evaluate this on a continuous basis. It is also important to note, that we have not made any such investment in the last so many years. So, that's all I can offer right now. And, I can also say that given the balance sheet, we are targeting to be net debt free by the end of calendar 2022, or maybe March 23.

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

Indrajeet Agrawal: My first question again is on Murli. So, after we have done the CAPEX and revamped the unit, will the cost structure at Murli be similar to our other units or will it still be at a structural disadvantage and on the same note, what is the kind of incentives that you can get for Murli?

Mahendra Singhi: So, we would get the incentive and Maharashtra government has already agreed that whatever incentives which are sanctioned, which will be available to us in GST regime also. So they are for next seven or eight years, and second on cost part definitely in time to come maybe in one and a half or two years, definitely the cost would be as per Dalmia standard.

Indrajeet Agrawal: Sir is there a number on incentives that rupees million or rupees crores number that has been announced on this?

Mahendra Singhi: Maybe Aditi will be able to share offline, but then it's a number which is already been agreed by the government. So we are hopeful of getting it the moment we start selling cement in Maharashtra.

Indrajeet Agrawal: Thank you. My second question is on the organic CAPEX so how much is still pending, so I'm trying to understand what kind of CAPEX we can look at for the remaining of the FY21 and 22 including the 400 crores for Murli?

Mahendra Singhi: Yes, so, 400 crore would be incurred as said in next 12 months, but otherwise the pending expansion CAPEX is about say 400 crores for our new capacity in East and secondly, there will be about 500 crores expansion on various improvement projects including WHRS.

Indrajeet Agrawal: Sure. One last trying to understand, so we have seen healthy working capital release in the first half. So, as the economy opens up more and we have better traction and volume, can some of these working capital release reverse or we can maintain at these levels?

Mahendra Singhi: I would say there will be difference of say 10% or 15% increase but otherwise it will be all at healthy level.

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

Sumangal Nevatia: I have a couple of questions. First, outside of cement Mr. Dalmia we hear some buzz on the ground with regards to the group's entry into some retail format. So, if you could share some details with regards to that, whether there is any such plan and if yes, will it have anything to do with Dalmia Bharat the listed company and if Yes, then what could be the investment, time horizon and the vision for that endeavor?

Puneet Dalmia: So, look this sector is evolving at a faster pace than most of us can imagine. And we always think of different ways and strategies to stay ahead of the curve. We have discussed multiple ideas with the board over a period of time and at this point in time, we are thinking about doing some small experiments, but it will not be prudent to say more given the strategic nature of these initiatives. And, I can only tell you that we are not going to commit large amounts of capital, but we are going to just do small experiments to understand and figure out how best to leverage strategic bets, which are adjacent and synergistic with our cement business. But, this is not going to involve large outlays of capital, it is only going to be very preliminary experimentation.

Sumangal Nevatia: Understood. And sir second question is with respect to East market, the region has quite a strong capacity addition pipelines from the industry perspective and prices if you see last years has been a bit weaker than the other regions, although we have been able to maintain our profitability because of our cost initiatives, so any thoughts on how do we see the East market dynamics shaping over the next few years in the medium term?

Puneet Dalmia: I will give you my initial comment then let Singhi ji answer it, overall we see it as a very attractive market with a very consolidated and a positive industry structure. So, the stability in this market is going to be immense. We also see from a demand supply perspective utilization levels going up and East is one of the few markets in the country where despite COVID, we have seen double digit demand growth. We also think that this is a relatively poorer part of India in terms of per capita income, and given the mining industry and focus of government to bring balanced growth across the country, there is going to be large headroom for demand growth in this area. So, demand supply equation will be favorable over the next three to five years, and also industry structure is great. So, we see it as a very attractive market in our portfolio, Mr. Singhi, if you want to add anything to it, please.

Mahendra Singhi: I fully agree and now the focus of the country and government is to enhance rural economy and the rural economy percentage in Eastern India is very high. And the per capita income of Eastern India is low on that account in the next three to five years, there should be good growth, there are not much capacity additions happening now in next three years. And maybe one or two plants, including our so on that account we see that there will be good demand supply dynamics for few quarters, there can be pressure on pricing like what's happening today. But at the same time, the capacity utilization has gone very high in East also and that's why we see it's a attractive market and it will go on adding value in our overall growth.

Moderator: Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: Sir one question, first and second two question one is that how do you look at capital allocation in terms of buyback and brownfield expansion now Puneet, because you mentioned in the beginning, and also Singhi ji mentioned about the buyback. So today your stock is possibly trading at a material discount to replacement value and possibly closer to brownfield. So, do you think with enough capacity right now, don't you think buyback makes more sense today or at what valuations does buyback start making more sense for you?

Puneet Dalmia: Look, we could clearly see that our stock is undervalued and we announced a buyback. And while we were able to complete, we were able to deploy 329 crores to it, we still could not complete the full allocation of 500 crores that the board had allocated. So, from a capital allocation perspective we could be only, we could not even complete the full capital that was allocated to it, we still see that currently we are trading at probably somewhere around $65 per tonne. And if we will continue to look at the most prudent way of deploying capital from a short term as well as long term perspective. So, we have a portfolio of projects, which are greenfield in nature, brownfield in nature and debottlenecking of our existing capacities, apart from operational improvement opportunities, where we can improve the cost structure further. So, there is a range of opportunities which we continuously evaluate and based on our own balance of growth versus profitability and long term versus short term, we allocate capital to the best possible projects. So, yes as you can see that's another option which we continuously explore. But, despite our best efforts we could not deploy 100% of the capital that was allocated to us. So, we will still explore it and, we will look at the pros and cons of other opportunities, which are available and then allocate capital in the most prudent manner, which we think is.

Nitin Bhasin: Because if the $60, $65 in new capacity cost and stocks trading at that, pretty much for your own value creation and the shareholders make sense. Anyway, sir moving on second one, we hear that in Odisha right now there is a challenge around the Odisha government canceling all the incentives given that you have actually put up a large unit of clinker and amount of competition that we are seeing with new plants coming over there, both especially South of Odisha, et cetera. How do you see now the return on capital employed of that investment? Will it be very, very low and loss making for the next two, three years?

Puneet Dalmia: Look Nitin, this investment is a brownfield investment and is created at a cost of $60, $70 per tonne. We are never dependent on government incentives to get return on our projects. That's only a kicker and a cherry on the pie. So, with or without incentives these investments are hugely viable and as I told you that Odisha plants are running at very high capacity utilization. So we expect the new project to be accretive right from year one and also, this is going to be the lowest cost line in the portfolio of Dalmia. So, not just the capital cost is low, but even the operating cost curve is going to be the lowest. So we are extremely competitive and it's in our home market, it's in a place where we understand distribution, where our brand is well established. So the risk to this project, being accretive is very, very low.

Nitin Bhasin: But the incentive is going away will create challenges for competition, then it helps you because possibly they were more relying on competition, how does it look?

Puneet Dalmia: Look, I don't know how competition allocates capital that's for them to decide. But, I can only say that for us, we have a very strong position in this market. Our cost curve is one of the best in the industry, our brand is very well established and our distribution network is very excited about this new project. And we are going to scale this up, based on demand supply fairly quickly. And this is going to give returns, quite fast given the fact that the investment is not very high.

Nitin Bhasin: So, Puneet now in the next 10 years, how are you thinking of capacity increase given the last 10 years or 3 times, 3.26 times, next 10 years how are you thinking, given the scale that you have opportunity landscape that you will see, balance sheet that you see, do you think again it's an opportunity to become three to four times in the next 10 years, because you are also an added target of adding a massive renewable energy by the end of the decade. So that might increase the cost of capacities that you create over the next 10 years and a lot of green fields might come. That's it from me. Thank you.

Puneet Dalmia: So look, I can't give any specific guidance on that because the board continuously evaluates investment opportunities and approves them. But all I can say is that we will continue to deliver growth, which is faster than the industry and, we have a strong track record of last 15 years in growing capacity in high teens and growing our EBITDA in also high teens. So, at that time we were a smaller company with less management resources, less capital and smaller footprint, given the fact that we have more strength now in all areas, whether it's people, capital or the footprint and the infrastructure that we have, can reasonably expect to perform on a similar basis in the coming decade as well.

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

Bhavin Chheda: Just a few questions. First is on the lead distance, what it would be for the company and post expansion and completion obviously, now the company's heading for double digit growth. So what would be the outlook on the lead distance. Second question is recently the petcoke prices have seen a spike. So what would have been the current fuel mix and how will we keep changing it so that our costs remain under control. Thanks a lot.

Mahendra Singhi: Okay, so one we have already laid down our strategy by which the new volume which would be coming up in East would be sold in the same market area where we are operating and that's why we don't see much increase in the lead distance on account of which that were having some effect on the cost. So that's already laid down strategy so we are quite confident about that. And on this second question, that was in regard to fuel. So, one I would like to say that all of our plants are comfortable to use any economic fuel. So whether it's a petroleum coke whether it's imported coal, like Indonesian coal or South Africa coal or lignite, at the same time, recently we have also made our plants ready to use alternate fuel which is green fuel. So, now in this quarter also after seeing that there is an increase in petcoke prices from say $70 to maybe $95, $98 we have already to some extent switched over to Indonesian coal and South African coal as well as a long term strategy, we have identified that we will go on using more and more green fuel with the proper strategy and proper operations. And another point is that to some extent now the Indian coal is also becoming economical in some parts of the country as Indian Government is also looking at enhancing the production and sale of Indian coal vis-à-vis imported coal. So, to that extent, I would say that all our plants are compatible to use any economic fuel, and we will go on switching for that.

Bhavin Chheda: And what would be the lead distance in kilometers?

Mahendra Singhi: Exactly, it may be about 270 or 280, but then definitely it can be further confirmed.

Aditi Mittal: It is below 300, it's about 290.

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

Madhva Marda: I had two questions. My first one was Dalmia has been at the forefront of scaling up the green power and fuel mix, I just wanted to understand what the current power mix for us is in some green sources like solar power, and WHRS and next 5 to 10 years where can that mix, move towards as we scale up capacity as well?

Mahendra Singhi: Yes. So presently, I would say including WHRS which has been installed and the three solar power plants which we have with us, the overall percentage would be 7% to 8% and in addition to this, they are also buying green power from IEX to some extent. And thirdly we have now a system that whenever and wherever IEX power available, which is lesser than even our own captive cost generation cost or grid cost we are buying that and we have now plan that in next 5 years and the next 10 years, how things would pan up so that we go on increasing percentage of renewable power which also includes WHRS and by 2030 we are quite hopeful, because you must have also seen that the cost of putting up solar power plants is going down and it will further go down and that will make sense in investing our funds capital, shortly in solar power also.

Madhva Marda: Okay, so the current power mix is 8% from WHRS solar power any number that we're targeting in the next five years that we want to reach?

Mahendra Singhi: Yes, it may happen maybe 35% or 40% we are targeting that part in next five years.

Madhva Marda: Okay. And sir just a follow up to this question was, given that the larger companies in the cement space are investing on the power mix, because they have the balance sheet to do so. Do you think this will create like a cost advantage for us, at least for the next 5,10 years, versus some smaller companies who probably can't invest as fast as us and as a result, sort of expands the margin for maybe the larger companies in the next five years, is that a fair way to think?

Mahendra Singhi: I would say as per our company's philosophy, and as well our commitment that we have to invest in green power so that we remain competitive, as well as we go on reducing carbon footprint. So we will go on investing and if other companies who don't have a strong balance sheet, if they don't do that then they may be at the simultaneous position, because it's time now that each and every company, not only cement company but other company should also invest in green power.

Madhva Marda: Understood. And my second question was, just wanted to welcome Mr. Bansal to the team, I was just very curious that he coming from to a more traditional industry from Infosys and Ola, I just wanted to know his thoughts on what gets him here, maybe sir slightly offbeat question, but just curious to know?

Mahendra Singhi: Yes, he would surely reply. But I would say, having met him and having understood him, he is a versatile personality and he has the capability to understand each and every type of industry, each and every type of working and he has also worked earlier in manufacturing company also. But of course, he has added great values in various IT companies, and maybe Rajiv can also share his thought.

Rajiv Bansal: Actually, there was a problem in the audio so I couldn't hear some part of it in the middle?

Madhva Marda: Should I repeat my question sir?

Rajiv Bansal: Yes, please do.

Madhva Marda: No, I was just curious to understand what brings you to a more traditional industry versus Ola and Infosys where you've worked in the past, just a bit curious to know your thoughts sir.

Mahendra Singhi: Rajiv, I just said that Rajiv is a versatile personality and whatever, we have understood that we can take care of any type of industry. And at the same time, he has a great mixed experience of manufacturing also, IT company also and finance companies also. Yes, Rajiv.

Rajiv Bansal: Thank you, Singhi. I have been with different industries, I started my career with power generation to telecom to IT to internet, the way I look at it is, it's a great opportunity in the company like Dalmia Bharat, given the company is growing at a very fast pace, with the post COVID, the government needs to accelerate economic development and economic growth. I do expect infrastructure spending to increase, I do expect a CAPEX cycle to come up very soon and companies are Dalmia Bharat will definitely be on the forefront of that and even from a company perspective given there is a huge opportunity in the marketplace the company has great potential, look at the capital addition over the last two decades, a great vision, Puneet has great plans and good vision for the company. Singhi ji, has this amazing strategic thinking, he is really kind of veteran in this industry. He knows the industry better than anybody else. It's a great leadership team. So, it's a great opportunity in the marketplace, it's a great potential that I find the company, a great leadership team and, from my perspective it's not about the new economy, and old economy, that's over period of time everything is going to get more technologically advanced. And it's to create value for all stakeholders and I see huge potential to create value in this company and in the sector and the reason I'm here and we will discuss more when we meet in person.

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

Ritesh Shah: Couple of questions, Puneet you did indicate about incremental capital allocation and projects been accretive from year one. So would it be possible if you could provide some numbers over here, how should one look at it when we decide upon incremental capital allocation, if you could put some numbers on ROCE or payback, that could be great. That's the first question.

Puneet Dalmia: As, I said we always look to make returns over a cost of capital and right now, if I look at our cost of debt capital it is 7%, we target return on a long term basis in equities, in the mid-teens say 15%, 17% return on equity. So, any project that generates return which is more than a cost of capital we like to invest in, having said that in the IBC situation, we saw distress in the market, we did not see too many buyers. So, we were able to pick up some assets at a very attractive price. And for those projects the return could be in the high teens or the mid-20s also. But overall, we have many investment projects, which will create growth and some of them are more long term if we enter new markets, like Singhi ji was saying, if there are greenfield projects they are more long term in nature, they may not give immediate returns, but over the tenure of the investment which is our time horizon could be anywhere between 7 to 10 years, even those projects yield the returns that we normally target. Over and above that we have a portfolio of cost improvement projects and in those projects, currently we are targeting a return of 4 to 5 years payback. So, it varies depending upon the strategic objectives, because in some markets you may have to take position, which may not be attractive short term, but it will be very attractive long term and we already have an entry license into those markets with the mining lease. But in some markets, where we already are present they are very attractive opportunities, because we are established cost structure is low, investment is low and it can give immediate returns. So, overall, on a portfolio basis whether it is brownfield or greenfield or cost improvement projects. We target returns in the mid-teens.

Ritesh Shah: That's useful, just a related question, in one of the prior questions it was said that Odisha government is not giving out incentives. Could you just confirm on that, and if you could provide some color on what is the status on incentives specifically about Bengal, Bokaro and Bihar as well, this is more from our forecasting purpose, rather than gauging it from a ROCE point of view, it will help us guys from a forecasting point of view. That's a related question.

Puneet Dalmia: Aditi, can take it offline or if Singhi you have some numbers in your mind you can share it otherwise Aditi can share the numbers with you.

Mahendra Singhi: She can take up offline.

Ritesh Shah: Perfect. And my second question is for Singhi ji, sir we have laid a very bold target on carbon negative cement growth by 2040. Again, so what gives us the confidence over here given carbon sequestration or carbon storage it is still something which is quite not proven or on a large scale. Cost economics is something which is still a question mark. So what gives this confidence and how should one look at it from a capital allocation point of view when we have laid out such bold targets. Thank you.

Mahendra Singhi: Yes, our organizations think for future, we have the capability to realize the future and that's why we offer cement also with the tagline future today. In fact, we could visualize that ultimately whoever is able to bring down carbon footprints, they would be also able to bring down their cost. And at the same time, they would also be supporting the globe and the community. So with that, we have kept our vision in mind, but at the same time always we'll be working with the philosophy of clean and green is profitable and sustainable. So, when we go for investment in renewable energy, then you would find that we are bringing down our cost of power, when we bring down the usage of fossil fuel and goes up with green fuel, then also we'll find that it is bringing down the cost of fuel. Similarly, when we are able to capture carbon dioxide and are able to use it as a as a raw material for other sectors, then also we are making one cost down and at the same time also taking away the CO_2 of other sectors by which we will be carbon negative. Now the good part is, that the initiative which we took on carbon capture utilization so Asian Development Bank has already now started feasibility report on the same. And lastly, I would say many of investment would also be covered by the international carbon market. That is going to start in two to three years time, so when we are ready, so we'll be having the advantage of first mover, because we'll have the project ready, we'll be able to offer our carbon reduction part for the carbon market and this is how we are visualizing overall scenario. And we're quite confident that we'll be able to do it, and you will find that many of the groups not only in cement, but other groups also are following and would be declaring that they will be carbon neutral, by 2040, 2050, 2060 but that's the trend which is in interest of each and everyone. Thank you.

Moderator: Thank you. The next question is the line of Amit Jain from Samsung AMC. Please go ahead.

Amit Jain: My question is for Puneet. I want to get a sense, you spoke about that by FY23 we target to be net debt neutral. The question is, do you want to stay that way, as you think over the next 5,10 years, or in our quest to sort of grow mid-teens in terms of capacity you look at adding on debt again. So just on a check, like on a longer term basis what sort of debt are you happy to have on the balance sheet?

Puneet Dalmia: No, look as I said earlier as well, having some debt always improves equity returns. So, if you have zero debt on the balance sheet, that's perhaps not the best use of capital. And we have to create investment pipeline in terms of projects, whether it is operations improvement, or new expansion projects, given that balance sheet is going to be very strong. But, on a sustainable basis, somewhere in the region of between two to three times EBITDA is something that we are comfortable with net debt to EBITDA of between two and three.

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

Swagatu Ghosh: First a the housekeeping one, what was the incentive number for this quarter?

Aditi Mittal: We accrued about 21 crore this quarter.

Swagatu Ghosh: Okay. And second question to Mr. Dalmia clarification on the IEX bit. So, did you mean that you will evaluate various factors and then take a call on the liquidation of the investment and if so, what would be those factors be?

Puneet Dalmia: No, I already told you that we are looking at, we continuously evaluate all our investment opportunities. And if we think that we have better way to deploy our capital, we will basically, recycle this capital. So, it just has to be a rational decision with no emotions, that's how we will look at it. And we will be just prudent about it.

Swagatu Ghosh: Okay. But is this still a thinking in terms of non-core and core investments, and if so then it would certainly fit in non-core**?**

Puneet Dalmia: Look this investment was made five years ago through power company, when the cement and power company were separate. So it was a very core investment to the power company, because at that time, we thought it's a better way to play the power sector as opposed to putting greenfield projects. We wanted to do it, we thought exchange is a much better and more attractive opportunity and our thesis has played out, not just have we made very good dividend returns, which are around 6%, 7%, on the capital that we've invested. But it's also given us appreciation of capital of about 2.5x. Having said that, we will continuously look at whether, we are the best holders of this asset right now or not, and compare it with other investment opportunities that we have. So we look at what growth do we expect in this asset, and by when, and what are the competing claims on our capital and based on that, we will take the best decision that makes sense.

Swagatu Ghosh: Got it, that's helpful. And the last question on the East India expansion. So we have our capacity coming up online. But in a scenario where the overall market growth does not sustain, I'm just curious to understand what would be a ramp up strategy currently, as I understand the growth is pretty strong. But if in case it tapers off, would there be a delay in our ramp up or would you still be aggressive and ramping up our capacity?

Mahendra Singhi: We still expect East to grow and some compressors in demand maybe for a month or two or three. And we are not playing any short term game. So we'll go with our strategy that yes, we have the capability of our brand, we have the capability of lower cost. So we will be able to ramp up as per our strategy.

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, the capacity in East is almost doubling. So, if the market conditions prevail, what it is right now in terms of demand, how much time would it take to bring a new capacity to a similar utilization rate as your current capacity is there in the market?

Mahendra Singhi: It will be one and a half to two years, maybe two year's time maximum.

Gaurav Rateria: Okay. Secondly, sir you talked about the cost curve being one of the lowest for the new capacity, would it be possible to get some numbers where the East market profitability stands today and how much lower on the cost would be the new capacity versus the current cost structure?

Mahendra Singhi: So, I would say if we just look at the clinkerization part then definitely, because of our very high efficient hydro process, the fuel consumption would be in the range of say 670, 680, power consumption would also be lower, maybe 45, 48 units. So according as per the price of fuel and power it will be lower than the existing one.

Gaurav Rateria: Okay. So, last question on the minimum cash balance, which you would like to keep on the balance sheet, because this first half you liquidated certain investments to pay off the gross debt quite aggressively. So is there a rethink on the minimum cash balance, you would want to keep on the balance sheet. Thank you.

Mahendra Singhi: There is no aggressiveness or something, it is all with our planning and strategy and since we have been able to generate good profits, so we have already repaid those debts and the same strategy we would continue.

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

Amit Murarka: So my question again, is on the expansions. So like how Puneet mentioned about the net debt EBITDA being comfortable at 2 to 3x and given that we were on track to get under almost debt neutral maybe in the next 15 to 18 months. So, is there any thought on fast-tracking with the North and the MP limestone is anyways will take two to three years to develop. So, can we expect any steps towards that, maybe by the end of next fiscal that will be the first question.

Mahendra Singhi: So, I would say that we have already started some green field activities and maybe in the next six to nine months we will further able to give a visibility.

Amit Murarka: Okay, sure. And also on this, when you enter new markets like because generally this actually is a completely new market in that sense.

Mahendra Singhi: Sorry?

Amit Murarka: So, I am saying that when you enter new markets as you're doing in West, so what is the strategy to go about expanding or catering volumes in that region, like when you first see through non-trade routes or is there a distribution network already being planned?

Mahendra Singhi: We have already planned out our strategy and it may not be prudent to spell out whole strategy in this call but at the same time we are quite confident that we'll be able to sell full volume and otherwise also we are fully aware of this market.

Amit Murarka: Okay. And what was the share of trade sale in this quarter?

Mahendra Singhi: Share of the trade would 70%.

Aditi Mittal: 68%.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Abul Fateh from Baroda Mutual Fund. Please go ahead.

Abul Fateh: You replied to one of the earlier questions which is asked by Sumangal, you said that the investments in the new retail venture that is going out will be experimental and small in nature. My question is, whether this retail venture would be in the existing Dalmia Bharat company and the capital would be provided by Dalmia Bharat or it would be in a separate company at the promoters level?

Mahendra Singhi: So, it will be part of our Dalmia Bharat only.

Abul Fateh: Okay. And the capital would provided by Dalmia Bharat?

Mahendra Singhi: Naturally.

Moderator: We take the last question from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: Just one question on the part of the media reports that were there, that in Kalburgi we are looking to invest. So, what will be the priority would it be like say MP or North to expand in the Southern market?

Mahendra Singhi: So, we are exploring possibilities of expanding our capacity in Karnataka. So government is coming out with some new proposals for investors and we are exploring that.

Kamlesh Bagmar: And sir lastly, like on just was going through your sustainability report and annual report as well. So we have done phenomenal job on the power consumption side. But on the energy kind of consumption we are at like around 797 or 800 kilocal per kg of clinker. I do know that last year, we had like a trial runs of a new kiln at Odisha. But even before that, like say it has been in the range of 770, 780 levels, which is by far highest in the industry. So any thoughts on bringing down that particular consumption levels?

Mahendra Singhi: Yes, one because of Kalyanpur Cement, DDSPL that heat consumption had gone up and now we have already done the bottlenecks so maybe in two quarters time, we'll be able to see the positive impact of that, second is we have also taken various projects on a heat consumption improvement part. So net result would also be evident and thirdly with this now, commercialized operation startup of Line-3 of East we should be able to see the lower number of heat consumption in totality by March end.

Kamlesh Bagmar: And sir what are the utilization levels currently at new kiln?

Mahendra Singhi: Which one?

Kamlesh Bagmar: The new kiln which have come up at Odisha sir?

Mahendra Singhi: Yes. So now, it will be 70% to 80%.

Moderator: Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Dalmia for closing comments.

Puneet Dalmia: Thank you very much everybody for your participation on the call. Again, I wish all of you and your families safe and healthy time. And once again, thank you for all your support and for feedback for growing this company. And thank you for being patient investors with us. We really appreciate it. Have a great day and look forward to connecting with you later. Thank you. Bye.

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