*"Conference Call on Acquisition of Adhunik Cement Limited by Dalmia Bharat Enterprises Limited."*

*October 4, 2012*

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**Moderator** Ladies and gentleman good morning and welcome to the conference call hosted by MF Global Sify securities India Private Limited to discuss the acquisition of Adhunik Cement Limited by Dalmia Bharat Enterprises Limited (DBEL). As a reminder for the duration of this conference call participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vaibhav Agarwal of MF Global Sify Securities. Thank you and over to you sir.

**Vaibhav Agarwal** On behalf of MF Global Sify Securities India Private Limited, we welcome you to this exclusive call hosted for the acquisition of Adhunik Cement by Dalmia Bharat Enterprises Limited. And on the call we have with us right now Mr. Puneet Yadu Dalmia, Managing Director, Mr. Deepak Sogani, Executive Director Corporate Finance and Strategy and Ms. Himmi Gupta, Assistant General Manager, Investor Relations. I will now hand over the floor to Himmi Gupta for the opening remarks which will be followed by a Q & A session. Over to you Himmi.

**Himmi Gupta** Yes Thanks Vaibhav. Good morning ladies and gentlemen. Welcome to Dalmia Bharat Enterprise Limited's call to discuss the acquisition of Adhunik Cement Limited. I have with me on the call Mr. Puneet Yadu Dalmia – Managing Director and Mr. Deepak Sogani, who will join us in a few minutes. We will commence the call with details from Mr. Dalmia. This will be followed by an interactive Q&A session. I would like to mention that this call would refrain from giving guidance on numbers and discussing on results or operations of the company for 2$^{nd}$ Quarter Financial Year '13 and may also not share certain information points related to the deal which remains confidential in the present state. The company has made available a brief presentation on the acquisition announcement. I will hand it over to Mr. Puneet Y Dalmia for his comments.

**Puneet Y Dalmia** Thank you all of you for joining us on this call. As part of our growth plan Dalmia Cement Bharat Limited a subsidiary of DBEL has acquired 100% stake in Meghalaya based Adhunik Cement. Adhunik Cement has a robust presence in the markets of the north east with a 10% market share and a capacity of 1.5 million tonnes per annum. Ownership of this business comes at a phased investment of Rs.560 crore and follows the non organic acquisition based growth strategy of Dalmia Cement Bharat Limited under which the company has acquired 50% stake in Calcom cement earlier this year in January. Adhunik Cement Limited was a strategic partnership between Kolkata based Adhunik and MSP Group. In August 2010, this JV commissioned its 1.5 million tonnes per annum cement manufacturing plant in Meghalaya. Adhunik Group is conglomerate with turnover of Rs.3500 crore engaged in mining Steel and power & MSP is a fast growing steel producing manufacturing company in India. With this acquisition, Dalmia

Group has scaled from 5th largest to 4th largest cement Group in India. The Group currently has operating capacity of 17.1 million tonnes (including Calcom and Adhunik) and 4.7 million tonnes under construction. The break up for the up coming capacity is as follows: OCL grinding unit 1.35 million tonne at Midnapur, West Bengal, Calcom 0.86 million tonnes, And Greenfield plant at Belgaum Karnataka 2.5 million tonnes. We are now open for a Q&A session. Thank you.

**Moderator** Thank you very much sir. Ladies and Gentlemen we will now begin the question and answer session. Our first question is from Jaspreet Arora of Anand Rathi. Please go ahead.

**Jaspreet Arora** Just wanted to check some of the numbers for this capacity that you bought out, what is the utilization rates in the last financial year for this and how do you plan to ramp it up?

**Puneet Y Dalmia** You know our sales number of the first quarter which we keep giving out in our investor call. So I think you can just calculate the capacity utilization from that number and we can give you more data if you want offline. We are continuing the ramp up process in both South and East. South has lot of over supply right now. As the market demand grows we will continue to grow our sales. And in the north east, Adhunik is currently running at 40 – 50% utilization. And we believe that we should be significantly able to scale up this utilization rate in the coming quarters.

**Jaspreet Arora** Alright would you be able to share the EBITDA numbers for this and the profit numbers for the last financial year?

**Puneet Y Dalmia** I think as Himmi said earlier we are not going to give any guidance.

**Jaspreet Arora** This is not guidance. This is like historical number.

**Puneet Y Dalmia** Yes that will be available from the Adhunik balance sheet but they had a steel and cement business combined. So I think the numbers are consolidated numbers which are available but cement numbers alone are not available.

**Jaspreet Arora** Right so would you be able to share it once you have the definite agreement in place?

**Puneet Y Dalmia** Can't do it right now.

**Jaspreet Arora** And how about the subsidy related item that you had mentioned in the presentation, just wanted to check this would all be capped to a particular amount, right?

**Puneet Y Dalmia** Sorry?

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| **Jaspreet Arora** | The subsidy that you had mentioned, the benefits that you would be getting. For example VAT and on account of this facility, this is all part of the capital subsidy that is being given in the north east states? |
| **Puneet Y Dalmia** | No that's over and above, the excise duty benefit, the VAT benefit, the transport subsidy, and income tax, they are all over and above the capital subsidy. |
| **Jaspreet Arora** | Alright thanks. Capital subsidy again is something which you probably be sharing in at a later stage? |
| **Puneet Y Dalmia** | Yes. |
| **Moderator** | Thank you very much. Our next question is from Raj Gandhi of Principal Mutual Fund. Please go ahead. |
| **Raj Gandhi** | Sir is it possible to highlight what is Calcom's existing capacity and how much is coming up? |
| **Puneet Y Dalmia** | Yes Calcom's existing capacity is around 1.2 million tonnes. But it is not fully integrated yet. They have a grinding unit which is commissioned but the clinker available for the grinding unit is only about 3 lakh tonnes. So we are still running it on purchased clinker and once the plant is fully built up which is under construction, the total capacity will be around 2.1 million tonnes and it will be a fully integrated 2.1 million tonnes. |
| **Raj Gandhi** | Okay as of now no clinker? |
| **Puneet Y Dalmia** | As of now they have about 3 lakh tonnes of clinker but 1.2 million tonnes of grinding. |
| **Raj Gandhi** | And just what is the timeline of this expansion coming through? |
| **Puneet Y Dalmia** | I think it is going to take 2 years. |
| **Raj Gandhi** | Okay and again it is not in phases? It will be all at one go the incremental capacity which is about to come? |
| **Puneet Y Dalmia** | One go. |
| **Raj Gandhi** | And for this Adhunik, do we plan to ramp up the capacity or it will remain at 1.5 in near future? |
| **Puneet Y Dalmia** | I think as of now we want to ramp up sales first and the future expansion I think we keep our options open. |
| **Raj Gandhi** | Okay and Calcom, any additional money that we have to pump in to complete this expansion? |

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| **Puneet Y Dalmia** | Sorry say that again. |
| **Raj Gandhi** | Because this expansion going on in Calcom, so whether we will have to do any additional funding that we will to accomplish this expansion plan or Calcom will fund this expansion on its own? |
| **Puneet Y Dalmia** | So we will have to do some additional funding and because there has been a delay in the commissioning of that project and currently there are operating losses in Calcom, so we will have to do some extra funding for that. |
| **Deepak Sogani** | However you know the larger part of the funding required for Calcom has already been tied up through the CDR mechanism and additional fund that have also been confirmed by their existing banks. (So over and above that whatever little cash is required, part of it may be required little bit now so that before the banking system fund come in, not a very large quantum from our balance sheet.) The plan is to ensure Calcom balance sheet would be adequate to fund itself. |
| **Raj Gandhi** | Just what is their amount of remaining CAPEX there? |
| **Deepak Sogani** | It has 2 grinding units of 0.86 million tonnes each. One of it is completely commissioned. The other one is pending. And the clinker unit is also under construction at this point of time. So approximately we would expect the overall CAPEX to be in the range of 400 – 500 crore. |
| **Punnet Dalmia** | Specific location because they have a clinker unit at a separate location and a grinding unit at a separate location (which also has a railway siding.) |
| **Deepak Sogani** | But we see a lot of synergies between Adhunik and Calcom, because Adhunik already has clinker capacity. We are buying clinker in Calcom. So it will be possible to use the clinker of Adhunik. We will have 2 functional units in north east starting now already. And we can sell in 2 distributed markets, one is Assam and second is Meghalaya, optimally. So the logistics cost optimization would perhaps be one of the best for us in the entire region. That's one hook that we are trying to play out. |
| **Raj Gandhi** | So later all if you can just give and integrated picture with Adhunik and Calcom combined, where all your clinker units will be and where the grinding units will be. We have got then cumulatively we will have about 1.5 plus 2.1 to about 3.6 million tonne of grinding. So where would it be located. And where will the clinker units be located, just to get an overall picture? |
| **Puneet Y Dalmia** | That's one clinker unit will be located in Meghalaya is Adhunik. That's an integrated plant. It is already running. Another clinker unit of Calcom will be located in Assam in a place called |

Umrangshu and they have Calcom as a separate grinding unit which is located in Assam only. It's a place called Lanka.

**Raj Gandhi** So Calcom will have all grinding units, 2.1 million tonne at single location in Assam?

**Puneet Y Dalmia** Actually they have a mini cement plant in Umrangshu which has some grinding. So out of 2.1, 1.5 – 1.6 will probably be in Lanka and the balance will be in Umrangshu. So Yes, I would say 80% of the grinding will be in Lanka, 80 – 90%.

**Raj Gandhi** Okay is that so much because there is so much demand in the vicinity or we will have to push the cement out somewhere in other market?

**Puneet Y Dalmia** See currently the way we see the north east market, the total size of the market is about 6 million tonnes. Out of this about 30% is imported from the mainland. And I think there is a clear substitution opportunity there by local players. But irrespective of that, the West Bengal market is very accessible from north east. So I think we will basically see which markets are priority markets for us in terms of building our distribution and the brand.

**Deepak Sogani** Also one of the investment theses is that the north east market is growing at a faster rate compared to the All India average. So we are expecting a lot of investment to happen in that region as evident by the recent growth over there, so in the recent past north east has grown at 13.5% compared to all India average of around 9.6%. So as we play it out on the next 3 – 4 years, we are expecting close to 1 million tonnes additional demand getting generated in the region on an annual basis. And we will be the first pan India player having a regional presence over there for the first time. At the moment the local brands, the Star brand is the key brand over there and all the other brands are coming from mainland, right? So having local presence, having established our own brand there, we will be very competitively placed. Also along with the distributed plant that we will have, so even with respect to the existing local players over there, we will have a logistics advantage given the fact that we will be producing clinker and grinding in 2 different locations and the market is also kind of widespread and logistics plays a very critical and important role over there. Also our plants are relatively new so we will be able to play out the incentives for a longer period. So relative to other players, who are local, we obviously stand to gain competitively. We stand to gain significantly from the mainland players who currently bring 25 – 30% in to the region and as the demand plays out 10 – 15% per annum in another 700 – 800 '000 tonnes of sale is required, additional sale required each year. With our combined capacity, and our branding and our local presence over there, we perhaps will be one of the major gainers over the next 2- 3 years, that's the thesis we are playing out for.

**Raj Gandhi** And just you have been the only Group who has been successful in back to back acquisitions, so anything special in that, just like to hear from you?

**Puneet Y Dalmia** I think this just a question of focus more than anything else. And probably we also do a very familiar with that region because of our own business development efforts in our Meghalaya Greenfield plant.

**Deepak Sogani** If we walk back the memory lane I think the Group always had committed a fairly larger growth rate than the industry, they have always been saying that we want to become a pan India player, we want to become 30 – 35 million tonne player, we want to do organic and inorganic play both and we strengthen our balance sheet. We restructure our balance sheet. We took equity. So we have taken all the strategic steps that are required for us to start playing out in the larger kind of context and this is the first time you guys can really see that our north eastern play in now settling down and other than south and east which we play through OCL, now we are one of the largest players in north east also. So only north-west is remaining and may be parts of centre also is remaining, right? And on the western side, we anyway have access through our southern plants. We just announced the ground breaking of Belgaum. A lot of that would obviously be sold in Maharashtra. So we have access to the western side. We have access to the central side. Only northern side, to some extent out of our reach at this point of time. So clearly we are kind of delivering what we had promised. This is just a step in that direction.

**Raj Gandhi** Right and given that all other companies are also looking at acquisition and had good balance sheet as in you have not ended up paying higher in that sense. I am a bit confused in terms of what does it speak of the competitive intensity in that sense. The hunger to acquire other companies as well. Because typically you would have assumed that it would have come at a higher price. It's almost, most of your deals at least below the current replacement cost that we hear out in the market.

**Deepak Sogani** I think acquisitions in the Indian context are obviously very complex. It's all entrepreneurial driven company that one is trying to acquire. So it requires a lot more patience, a lot more willingness to deal with complexity in this particular situation, we were at the ground for about a year. It's not really easy for any other company to kind of follow exactly the same path we did. So the flexibility that we have, the commitment that we have, the willingness to deal with complexity, the fact that we understand the local situation very well. Also the fact that I must say, that we were incubating Meghalaya for our own green field for a very long period of time. And therefore we understood north-east extremely well which was an additional advantage that we had in this particular situation. So when we were evaluating, we kind of completely understood the incentive play over there. We understood the forest issues very well, perhaps better than most of the other Elaka conditions. So there are quite a few typical situations of north east which our management team, leadership team was able to kind of fathom fairly well compared to what the competition may have been able to do. And that was a competitive advantage that we had in this situation.

**Moderator** Thank you very much. Our next question is from Anand Agarwal of Jefferies please go ahead.

**Anand Agarwal** Thanks for taking my question. I have 3 questions. First on Adhunik Cement you mentioned this Rs. 560 crore, right and it will be paid in phases. So what are these phases dependant on and second, is there any debt that you will be taking over on this acquisition?

**Puneet Y Dalmia** So I think we are assuming the debt on the Adhunik balance sheet which is about Rs. 525 crore but in terms of phasing I think we can't disclose there are some milestones which the existing management has to deliver on. And based on those milestones further payments will be made. I think that part is still confidential.

**Deepak Sogani** As far as debt is concerned, plant is fully functional. So its fully CAPEXed out and there is really an operating plant, the business is also running some 50 – 60 '000 tonnes of per month sales that are happening over there. It's may be 2 years post commissioning period has already elapsed so far. I think from a balance sheet debt what is already there is what is there. We are not expecting a lot more debt in the business, at this point of time.

**Anand Agarwal** Understand. Second, pertaining to Calcom. When do you expect that transaction to close out? I mean in terms of, any time lines on that?

**Puneet Y Dalmia** I think that transaction is already closed.

**Deepak Sogani** So if you are talking about the balance stake that is there, it's an earn out kind of a structure and it is not in the near term. It will be over a period of time, that we may end up buying some small pieces ahead of the complete piece but the absolute 100% will happen over a longer period right?

**Anand Agarwal** Okay understood and third, you talked about using the clinker capacity at Adhunik for grinding at Calcom. You see that happening immediately or sometime before you start moving towards that?

**Puneet Y Dalmia** No it will happen immediately.

**Deepak Sogani** It's one of the almost near terms low hanging fruit that is available in the system. Calcom is already buying clinker from alternate sources. Now that particular business has clinker of its own. So you should start immediately.

**Moderator** Thank you very much. Our next question is from Ashish Jain of Morgan Stanley. Please go ahead.

**Ashish Jain** My first question is on Adhunik. Now when we are making a point that Adhunik was commissioned 2 years back and that north east imposed 30% of the cement acquired. I just want to understand why the plant is opting at 40 – 50% utilization in your assessment?

**Puneet Y Dalmia** I think that's a great question. One is they were having some technical problems in stabilizing the plant, this is a Chinese plant and there were some issues related to technical stabilization and the second issue is they were also not able to develop distribution and brand to successfully sell. And the third issue they were also starved for working capital. So I think a combination of these 3 issues led to under utilization of the plant and we are hoping that with the Dalmia management we should be able to ramp this up significantly in the coming quarter.

**Ashish Jain** But there is nothing in terms of plant set up or design or something which could delay our ramp earlier?

**Puneet Y Dalmia** No we don't think so.

**Ashish Jain** Can you just tell me the clinker capacity and back up power incase anything there?

**Puneet Y Dalmia** Yes they have 25 megawatt captive power plant in Adhunik and the clinker capacity is around 3000 tonnes per day.

**Ashish Jain** And secondly its more a broad question at a Group level, what kind of peak debt levels that we are seeing for Dalmia on a stand alone basis and even at a Group level, say in the next 2 – 3 – 4 years given our expansion plan or its completely subjected to what we acquire and what opportunities are there and all?

**Puneet Y Dalmia** I think our plans are flexible. We had stopped our green field expansion and paused it for a long time. And then we suddenly saw 2 new attractive opportunities where we think, we can give very good IRR and it also gives us a strong position in the market. So we can't give guidance on peak there because we will be opportunistic, and we will keep chasing opportunities that give us higher returns and where we think we can cement good long term positions.

**Deepak Sogani** I think if I were to just add on, strategically what we are playing out for is to try and become a pan India player, number 1. Obviously with 35 – 40 million tonne kind of capacity we believe that the aggregate capacity required in the country should be more than 600 million tonne over a period of time clearly, so if you are playing out for that, the strategic imperative that you are playing out for is to build now ahead of the peak cycle. We want to build now. Now we have a great equity partner with us, KKR, so therefore we have the resilience in our equity borrowing if required, which gives us the ability to stretch a little bit more on the debt side because equity is available on tap. And this partnership obviously has 2 different pillars. One was the money that they gave us. But the second aspect was obviously the ability to borrow in future if required kind of a situation right? So that back stock resilience is something that is enabling us to take a little bit more aggressive position on the debt side and start building more aggressively ahead of the peak cycle. And that's what we would like to do. And in that line we have announced Belgaum, so at this point of time, we are doing 4 different expansion activities. We have done these 2 acquisitions. We have on the Greenfield in Belgaum and we are also doing one grinding unit in OCL at Midnapur. So doing 4 different activity right now and again on a look out to add some more so that over the next 3 – 4 years our growth is obviously far superior to the industry and we are able to kind of consolidate forth position and may be even move further ahead. I think that's what we would like to do.

**Ashish Jain** Sure. One last question on the Karnataka expansion what is the timeline and what is the CAPEX is likely there?

**Puneet Y Dalmia** CAPEX is approximately Rs. 1350 crore and it's going to take 2 years.

**Ashish Jain** From now?

**Puneet Y Dalmia** Yes.

**Moderator** Thank you. Our next question is from Neha Manpuria of JP Morgan. Please go ahead.

**Neha Manpuria** First on Adhunik given we are trying to expand capacity in Calcom, do we have the requisite land etc to look at expansion at Adhunik if needed?

**Puneet Y Dalmia** Yes. In fact there is scope for further expansion here. And our own location in Meghalaya which is fully incubated and ready for construction is also just 40 kilometers away from Adhunik. So we have the capacity to further expand in Meghalaya. We also have the capacity to further expand in Assam if we need.

**Neha Manpuria** And second more industry related question. What is your outlook on cement capacity addition now given that you have seen some announcement over FY13 – 14 over the next 2 years.

**Puneet Y Dalmia** Our view on that is that the rate of capacity addition will come down in the coming years because most of the plants which were in the pipeline have been commissioned and for building new plants it is going to take much longer, because of all the land acquisition and environmental permit issues. We also feel that the last phase of Greenfield expansion had lots of new entrants but this time around we have seen that all those new entrants are under stress right now. And we feel that the new green field expansion will be done only by disciplined players who have a long term view on the industry. And who are not building to sell.

**Neha Manpuria** On your question on new entrants, we have seen quite a few of them in your state like AP in which you are operating and given the recent pricing action, do you look at it as worrying or is it just a short term phenomena and you should see improvement? What is your view on AP currently?

**Puneet Y Dalmia** I have been cautious on AP because there is lack of political leadership there. And the demand growth has been very disappointing. It's been actually one of the few markets which has shown negative demand growth for 2 years and continues to do so even this year. So even though there was brief spurt of improvement, in the December quarter last year, I think it didn't sustain. So my view is that despite this prices have been better than what I had expected. And I continue to hold a cautious view on AP. And I continue to think that unless some more consolidation happens or until some more change in political leadership happens, we will continue to see price volatility in AP.

**Moderator** Thank you very much. Our next question is from Nitin Jain of Kotak, please go ahead,

**Nitin Jain** Just wanted to check on 2 things, is there any plan to integrate OCL with the parent at this point of time?

**Puneet Y Dalmia** I have always said that these are 2 separate companies and 2 separate Boards. So I really cannot comment on it. This will be a shareholder and the Board decision.

**Nitin Jain** Okay post this acquisition, does it leave room for further acquisition at Dalmia Bharat or we are going to focus now on ramp up of utilization from here on?

**Puneet Y Dalmia** We are currently focused on digesting what we have committed to and our immediate focus is to ramp up the north east plant and ramp up our existing plants in line with market demand. However we continue to remain very bullish about the long term prospects of this business and with the KKR partnership we have access to a lot of capital. And if we get good opportunities, which are compelling in terms of returns and which help us build long term position, differentiated positions in attractive markets, I think we will still have appetite to do more. But we will be very selective.

**Nitin Jain** So last question on Adhunik, do you get some mining of limestone along with the deal or it is just unit that comes through you?

**Puneet Y Dalmia** Sorry say that again, I didn't get the question.

**Nitin Jain** Did you get mining rights along with this deal on mining of limestone and others?

**Puneet Y Dalmia** Yes we did.

**Nitin Jain** So don't have an issue of raw material access, even if you have to expand capacity there?

**Puneet Y Dalmia** No.

**Moderator** Thank you very much. Our next question is from Sumangal Nevatia of Macquarie. Please go ahead.

**Sumangal Nevatia** I just have one quick question. Sir for the 25 megawatt power plants, what is the fuel source? And are we getting it from coal India or we purchase it from the market?

**Puneet Y Dalmia** We are basically buying local coal from Meghalaya. There is lots of coal mining happening there and we basically source all the coal locally from Meghalaya.

**Sumangal Nevatia** Alright, Sir, will it suffice after we ramp up capacity terms of utilization or we have to buy it from the grid.

**Puneet Y Dalmia** I think the current power plant will serve our fully ramped up plant.

**Sumangal Nevatia** Sir, in Meghalaya, we are buying it from e-auction, is that right? Or

**Puneet Y Dalmia** We are basically paying market price, there is no linkage. It is private mining and it's a private-to-private sale. There is no Government….

**Moderator** Thank you very much. Our next question is from Amit Rathi of Merrill Lynch. Please go ahead.

**Amit Rathi** Like How many such acquisition opportunities are available in pan India basis? And if there is an acquisition opportunities in Andhra Pradesh, is Dalmia willing to buy some?

**Deepak Sogani** Amit, I think Merrill should guide us on what opportunities are available in India.

**Moderator** Thank you very much. The next question is from Nitin Bhasin of Ambit. Please go ahead.

**Nitin Bhasin** You mentioned that the main markets of Guwahati and other, so just wanted to understand, may be in terms of other sales right now. How much of these sales happened to Guwahati region and how many apart from Guwahati?

**Deepak Sogani** See, the normal market concept is about 50% of the market is in Guwahati, 25% in Meghalaya and balance 25% is distributed amongst the other smaller cities. That's the situation. Most of the Meghalaya plants also sell in Guwahati. The advantage with Calcom is that it is in the main market. That's one advantage from the logistics point of view. It is next to the highway and the stuff like that and it has got lands and reserves of its own. I think we were mentioning earlier on given the way the North East placed, you have a big market in Guwahati, you have a big market in Meghalaya, then you have distributed markets, if you have two different plants in the region, we will be able to optimize the logistics cost by near sourcing the delivery from whichever plant is closer to the market right. And that is what is unique to us. Given the fact that we have clinker in both the places. Star has a grinding unit which is separate but clinker has to move.

**Puneet Y Dalmia** Just a small correction. 50% of the market is Assam and not in Guwahati. Guwahati is the largest center in Assam.

**Nitin Bhasin** In terms of you mentioned that it is 250 Kms from Guwahati, which is the biggest market in North East, is it right to believe that it will be road linkage logistics for reaching out to Guwahati market from Adhunik.

**Puneet Y Dalmia** Basically by roads**.**

**Nitin Bhasin** Whilst you said that the capacity utilization is low and everything and you will have to invest in so many things, what's the unique buying point, is it just the access to the North Eastern market and the only player to sell. That's the unique buying point or anything else apart from this which is your unique buying point for this capacity. That's one question and second thing is when do you take off the brand Adhunik here and replace it with Dalmia?

**Puneet Y Dalmia** That's a great question. So the unique point is basically we are the only company in North East with two separate locations, and therefore we can synergize the operation to be the lowest cost delivered to the market. And I think the other point is building new plants in North East is very difficult, so just having access to this market in the near term is probably going to be impossible unless you acquire. So if you want to build a new plant, buy land, get mining permit, get environmental permit, I think it is a minimum 5 years process. You know probably even more. So the only access to this market is through acquisitions in the short term. And we personally think it's an attractive market, in terms of pricing as you have seen in one of the charts we circulated; the prices in North East have been higher than the all India average for the last 15 years and we also think given the fact that there are significant tax incentives, the profitability in this region can be higher than the all India average. So we think it is a very attractive market for play in and cement is all about building local differentiated positions. So this will be something which we think will be unique to Dalmia in the coming years and will significantly add to our profitability.

**Nitin Bhasin** And the other one was about the brand wise. What I have seen is that national brands like possibly Ambuja fetches a higher price than the local brands over there, so now if you were to position Dalmia as the main brand, and would you be doing this also on the first place.

**Puneet Y Dalmia** You are absolutely right. You know our brand strategy is that we are thinking about it right now. How do we launch our brand and how do we position it? Clearly we want to do it sooner rather than later, and we want to have one brand in the North East eventually but how we will phase it, how we will position it, is still work-in-process right now.

**Nitin Bhasin** Presently you have three brands, am I right? One is this, 2 for Calcom.

**Puneet Y Dalmia** That's the present situation. But you know we are reexamining at the moment, what's the end state we want to be in and how do we move from the current state to the end state in the most optimal manner.

**Deepak Sogani** Given the fact that most of the supply in the North East is delivered by the local players, most of the local players have had very erratic quality, very erratic delivery kind of a history, and therefore the credibility of these local brands has not been very high and that is reflected in the price differential between what the mainland players enjoy in the north east verses the local players. The data is as high as about Rs. 35-Rs. 40 a bag you know and once we are able to kind of launch our brand and bring the consistent quality and consistent delivery into practice as a national player, we are obviously very hopeful that we will be able to increase our price points for Adhunik and for Calcom very significantly, in fact this is one of the largest levers that is available to us in the market.

**Nitin Bhasin** So if you could get some reference in terms of where would be your pricing of Adhunik be right now, presently to the chart that you have given or possibly to a national player like Ambuja?

**Puneet Y Dalmia** I think Adhunik currently is around Rs. 30 – Rs. 35 lower than national players in that market.

**Nitin Bhasin** The last one is that the data that I have for April to July says that Adhunik data volume of about 162,000 tonnes for those 4 months implying something like a capacity utilization of about 32%, if you could tell me if that's right or wrong. That's one and second thing is if you could you give some sense in terms of YoY growth for that similar kind of number last year. See the project is already 2 years old, what kind of a growth is Adhunik already witnessing there.

**Deepak Sogani** So, let's answer it in 2 parts. You know obviously the plant is a very stable plant; it is selling cement and also clinker sales also which is also not very significant right. So if you combine these two, the capacity utilization will be far higher than what you have suggested. Clearly there is a need that the business has been obviously running well but it does not have a backing of a strong cement Group behind it. Therefore their understanding of the industry, their Groups backing in terms of cash behind this business and leadership behind this business has not been as much as what we would be able commit behind it. And therefore they have been able to attract less than the optimal quality in terms of talent, in terms of dealers, in terms of everything if you go to. Once if we kind of set these operating parameters correct, you know our sales strategy, our branding strategy, our channel strategy, our pricing strategy, and you know the focus behind it, the cash behind it, the consistent delivery, the logistic truck process, once you put all these pieces together, and make it work coherently, we are very clear that there is a gap in the market we will be able kind off quickly find additional capacity utilization. Basically there is a need and unfulfilled need in the sector.

**Nitin Bhasin** Because as you highlighted the technical problems also, and we have been also hearing that particular plant faced breakdown for technical reasons, do you think there is some kind of investment requirement to address these technical issues?

**Puneet Y Dalmia** I am sure that there will be some CAPEX. We have modeled some extra CAPEX in our models and we have kept some cushion for it. In fact as of now the plant is fully running, whether we need do some efficiency optimization CAPEX or build some infrastructure around the plant or pay for the afforestation charges and the NPV of the forest and there will be some CAPEX which we have to incur, but in terms of ramping up of the plant, I don't think we need to do much. It is just about efficiency, infrastructure, and some of the permits.

**Nitin Bhasin** In between, I was going to ask you one small question, if you can help us with YoY growth in last 4,5,6 months that of volume that Adhunik has witnessed and how better is it compared to the entire industries because you have said that….

**Deepak Sogani** I think there is not much merit looking at the historic data of Adhunik. I think it is a completely CAPEXed out plant. Obviously some ongoing small CAPEX will happen, but that's not material. One should take it as a completely functional plant, the processes have established working, there is a reasonable organization in place, teams are in place, I think we just need to management to be done in more consistent manner, and once this is done, very quickly we should be able to kind of grow it very rapidly. That's the larger sense that we have. We are actually pretty happy with this acquisition given the fact that this is a functional plant and we are selling in the right market and we are able to get a leadership position in the market, so on and so forth.

**Nitin Bhasin** So when do you expect possibly utilization closer to about let's say 65-70%, is it like just in the offering you go in there and in about in 2-3 months to take it to 60-70% or do you think is it still a long drawn process to reach 70 percent capacity utilization?

**Puneet Y Dalmia** I don't think we can give you guidance on these forward numbers. Our own view is that we have already rolled up our sleeves and got onto work. So our technical people are there at the plant, our sales team is already working on what's the brand strategy and how to build a great distribution channel, So, I personally think that we will see good news in the coming quarters. But exact numbers, I don't think we can share right now.

**Deepak Sogani** The other thing with this plant is that, it is not only a fully functional plant and everything but I think we have a got great team along with the plant.

**Moderator** Thank you very much. Our next question is from Pankaj Tibrewal of Kotak Mutual Fund. Please go ahead.

**Pankaj Tibrewal** Just a couple of questions on the subsidy element, which the plant enjoys. If you can just help us understand, how much is the tax rebate and subsidy from an overall perspective?

**Deepak Sogani** If you look at it in a ballpark zone North East subsidies are standard subsidies, right, so other than the capital subsidies in sector which are available forest clearance, for stamp duty, for capital and many other things which are available till the time actually the plant is commissioned. But on a post commissioning basis there are 3 large buckets of subsidies, the VAT, the excise and the income tax and of course the transport subsidy which is also very large. If you kind of break these transport subsidies will be somewhere around Rs. 400-500 per kind of situation. And the VAT subsidy will also be somewhere between your- depends if your selling Meghalaya and your selling into Assam and you will perhaps have Rs. 400-500 VAT, also excise will be another Rs. 300-400**.** Ballpark zone somewhere between Rs. 1000 to Rs. 1200-1300 could be the subsidy element on the on going basis other than the income tax benefit that is available on the top of it.

**Pankaj Tibrewal** That seems to be large number Rs. 1200-1300 per ton.

**Deepak Sogani** It is a large number, even if you want to put a ballpark of around 1000, a fairly large number therefore the EBITDA per tonne kind of an estimate of the region is far better than what you have in main land over a sustained period.

**Pankaj Tibrewal** When these subsidies are due 10 years, 15 years how many years?

**Puneet Y Dalmia** Excise duty is 10 years, vat is 7 years and transport subsidy is 5 years.

**Pankaj Tibrewal** From the date of commissioning of the plant.

**Puneet Y Dalmia** Yes, from the date of commissioning of the plant, which is August 2010 for Adhunik.

**Pankaj Tibrewal** Second, as we understand there is about Rs.500-550 crore of debt on the balance sheet of Adhunik cements right now .what could be the subsidy receivable right now on the balance sheet?

**Deepak Sogani** There would be some subsidy both on the capital subsidy account and the transport subsidy account- but I do not think we need to go into that level of balance sheet details on this call. This is kind of strategic call. We just want to give the road map to you**.**

**Moderator** Thank you very much. Our next question is from Ajay Nandanwar of UBS. Please go ahead.

**Ajay Nandanwar** What is the debt on Adhunik?

**Deepak Sogani** Rs. 525 crore. It is there I think in the presentation we sent across. Or the press release we have given out in past, debt number is there.

**Ajay Nandanwar** That is sense you paid sort of E/V close to 1020 crore

**Deepak Sogani** Rs. 1085 crore is the E/V that we have declared.

**Ajay Nandanwar** And your clinker and grinding capacities in Calcom could you briefly mention that.

**Puneet Y Dalmia** The current capacity in Calcom is 1.3 grinding and clinker is about 3 lakhs ton per year. But this will eventually go into a fully integrated clinker of about 1.5 million and grinding of about 2.5 millions.

**Ajay Nandanwar** Till then you think if the Adhunik capacity utilization is lower by 100% you can use the clinker to support.

**Moderator** Thank you .Our next question is from Amitabh Sonthalia from SKS Capital. Please go ahead.

**Amitabh Sonthalia** Just wanted to get a sense of what is the total installed capacity in north east you mentioned in your presentation that the demand is about 6 million tonnes. If we can get some sense of the current demand supply balance, please.

**Puneet Y Dalmia** According to us if you look at all the mini cement players you know everything put together the current capacity in the north east should be in the range of around 7 million tonnes. However many of these plants have very small capacity and they do not have good management team and are cash trapped and they run out of the incentives because you know mini cement plants had started long time back. So, many of these plants are actually not operational. The total installed capacity in the North East is in the range of 7-7.5 million tonnes. However, if you look at the large plant- there are only 3 large plants in the north east. One is Star Cement, one is Topcem and another is Adhunik. Calcom is still under construction and they only have a grinding unit right now and they are not fully integrated. So out of these 3 plants the total capacity is about 4 million tonnes. And next 3-3.5 is all mini cement plants.

**Amitabh Sonthalia** What would be the effective capacity in terms of what would be the current supply situation, in terms of broad sense.

**Puneet Y Dalmia** 30% of the cement is imported from the main land if you look at how the market is served- 6 million tonnes is market, 2 million tonnes is imported from the main land approximately and 4 million tonnes is locally sourced.

**Amitabh Sonthalia** of course apart from betting on the growth are we also betting on the fact that we will supply more locally by ramping production, and therefore have less reliance on the imports of the region.

**Puneet Y Dalmia** Absolutely, our cost structure will be far lower and all our plants are new plants and you know large plants in term of scale, also logistic cost are likely to lower have given the split locations of these plants. I think in terms of cost to serve, we are the lowest cost producers in north east. Secondly, since they are newly commissioned plants you know incentives are still intact. So, we think in terms of cost to serve probably we will be the lowest cost producer.

**Amitabh Sonthalia** Do you have any knowledge of other top players like Star and Topcem, expanding capacity or else any other new player setting up, apart from Calcom.

**Puneet Y Dalmia** I think Star has one plant under construction.

**Amitabh Sonthalia** approximately, what size?

**Deepak Sogani** I think post the commissioning of plant, Star's individual capacity will be 2.7 million tonnes, around 3 Mn T.

**Amitabh Sonthalia** I know you did not want to share too much financial details the transaction but can we give a sense of- are you going to be consolidating both the recent acquisitions in your current year numbers and when can we expect to see Adhunik and Calcom reflected in our quarterly numbers?

**Deepak Sogani** See, Adhunik has been acquired in Dalmia Cement Bharat Limited and then we have controlling stake already so obviously we will have to consolidate immediately. On Calcom we had 50% stake and we will have to see as and when we acquire the larger controlling stake. That is the time we will start consolidating.

**Amitabh Sonthalia** So, Calcom even though you have 50%, you do not intent to follow if not consolidation at least the associate company or whatever the norms are, in fact taking into account the 50% of line items.

**Deepak Sogani** The way we look at it the consolidation has little less relevance in Calcom at this point of time, because it is mainly a company where the larger focus is in setting up the project whatever is due and operations are little smaller part over there and Adhunik is more relevant because obviously we have larger operations on the ground at this point of time. Let us play it out and we have the…

**Amitabh Sonthalia** What could be the total financial commitment towards Calcom and Adhunik combined in terms of equity contribution, if you can just refresh that figure for me, I know it is probably disclosed.

**Puneet Y Dalmia** Well Adhunik on a phased basis is going to be 560 crore and in Calcom we have already given a number of 238 crore.

**Amitabh sonthalia** That is also in phased manner or it is already committed.

**Deepak Sogani** Calcom will certainly lead to more than 238 crore over a period of time. We are temporarily funding to support the company.

**Amitabh Sonthalia** In terms of equity or debt commitments, etc., taking that into account is it possible to get a sense of what are consolidated debts in Dalmia Bharat would look like for FY13?

**Deepak Sogani** See I think let us do the off line. We are already giving you a debt figure for Adhunik 525 crore. In calcom we said 4-5 hundred crore of project cost is still due which is obviously has to be primarily debt funded. On a fully loaded basis I think Calcom eventually will have somewhere close to 700 crore debt, approximately.

**Amitabh Sonthalia** Eventually after full commissioning, etc.?

**Deepak Sogani** That is our estimate right now and then whatever is there in Dalmia.

**Amitabh Sonthalia** If I may quickly touch upon the Dalmia Sugar open offer acquisition that you announced. I know this call is for the Adhunik

**Puneet Y Dalmia** I think we will take it offline.

**Moderator** Due to time constraints, we will take our last two questions. That would be from Mr. Siddhanth Kumar of IDBI Capital. Please go ahead.

**Siddharth Kumar** Sir, just want to know if you have worked out IRR for this investment or the acquisition you have done in Adhunik?

**Puneet Y Dalmia** We think our IRR could be anywhere between 15-30%. It is a big range. I think the way we see it is that in a really bad scenario, we still have protection of about mid-teens. But in a good scenario this should be a transformational transaction.

**Deepak Sogani** I think it appears to be a fairly attractive kind of transaction from an IRR valuation, operational, regional attractiveness, and strategic attractiveness for us. In big picture very comfortable kind of returns we expect on this.

**Siddharth Kumar** So you are building all these synergies at your other plants, etc.

**Deepak Sogani** I think obviously any large acquisition takes a little bit of time to digest, integrate, and synergise that is what will happen but eventually as the new CAPEX cycle begins, the CAPEX will become more expensive it takes a lot of time to establish any asset in the North East. Adding up functional asset itself is a superior advantage over there. So I think all those come this is a complete I would say win-win situation for us.

**Moderator** Thank you very much. I would now like to hand the floor back to Mr. Vaibhav Agarwal for closing comments.

**Vibhav Agarwal** Thank you. On behalf of MF Global Sify Securities India Private Limited and I would like to thank the management of Dalmia Bharat Enterprises Limited for this opportunity of the call and thank you all the participants for joining the call.

**Moderator** Thank you very much. Ladies and gentlemen on behalf of MF Global Sify Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.