"Dalmia (Bharat) Limited Q3 FY19 Conference Call"

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MANAGEMENT:	**MR. MAHENDRA SINGHI – MANAGING DIRECTOR AND CEO, DALMIA CEMENT** **MR. JAYESH DOSHI – WHOLE TIME DIRECTOR AND GROUP CFO, DALMIA BHARAT**
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Moderator: Good day, ladies and gentlemen and welcome to the conference call hosted by Phillip Capital (India) Pvt. Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing'*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Pvt. Ltd. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Thank you, Margaret. Good morning everyone. On behalf of PhillipCapital (India) Pvt. Ltd., I welcome you to the Q3 FY19 Conference Call of Odisha Cement Limited to be renamed as Dalmia Bharat Limited. On the call we have with us Mr. Mahendra Singhi – Managing Director and CEO, Dalmia Cement, Mr. Jayesh Doshi – Whole Time Director and Group CFO, Dalmia Bharat and the senior management team.

It is a proud moment for the company as this is the first earnings call of the amalgamated entity after it has got successfully listed at both NSE and BSE during the last month. Congratulations to the entire team at the company and at this point of time I will hand over the floor to Mr. Mahendra Singhi for the opening commentary. Thank you and over to you, sir!

Management: Thank you, Vaibhav. Happy morning all friends, hope the New Year has been going great for all of you. I am very glad to share with you that post amalgamation of all our companies and subsidiaries the combined entity has been listed on both NSE and BSE during the month of January. We now have a single listed entity which is called Odisha Cement Limited and shortly which would be renamed as Dalmia Bharat Limited. Mr. Jayesh Doshi, our CFO will share definitely some more details about amalgamated entity and way forward.

Friends, I am sure you all have received our earning details and definitely we would be discussing about that. As you must have understood, overall cement demand is growing which is a good feature for Indian economy also as well as for Indian cement sector also. Broadly, we see that the demand has grown by 13%-14% for 9 months and our company has also seen the volume growth of double digit and its 11% for 9 months. The growth is primarily supported by the continued thrust by the government on infrastructure which is quite visible through the improved record of roads getting constructed very fast. The work on affordable housing picking up and the toilets, etc. getting built under Swachh Bharat and also the rural economy is going up. Like I mentioned previously, the push on development is continuous and we should continue to further see a seasonable demand growth. The budget which has been, interim budget which has been announced some days back is also indicating a good future for Indian economy also and for Indian cement sector also.

We are expecting that for the FY19 the demand growth number maybe around 9% to 10% in view of the high base of Q4 of last year. The capacity utilization for our company as a whole has increased to about 70% in Q3 FY19. The capacity utilization in East and North East has been comparatively higher. But it is lower comparatively in South. Now friends, the challenges which have been faced by the industry as a whole also and the company as a whole also are 2. One, increased prices of fuel and particularly slag in the East and second is on the pressure on prices on account of various regions. Now from costing point of view I would like to share that the slag prices have seen very high increase in East where we are one of the major producer of slag cement. And we have seen sharp increase in prices mainly because of 2 reasons. One, the export of slag also started to some extent in Bangladesh and Nepal and secondly the stocks of steel companies of slag drying out. In last 2 months now again we have seen bit softening of slag prices on account of one maybe logistic problem and secondly it is slowing down of demand of Bangladesh. So, we expect that maybe in few months to come, slag prices may be bit softer.

In regard to prices now it seems that good demand would help in getting the right prices in cement sector. There may be price increase well supported by high demand in North and Central area also as well, East and South also. And we expect that yes, if demand grows like this then prices maybe bit better. Similarly on petcoke I would like to share that the petcoke prices had gone from $80-$90 to $105 to $115 little bit it has softened and now it is ranging around $90 and we expect that maybe, in next 3-4 months' time to come it may remain around this range. Overall, if you see our performance we have been able to clock EBITDA per tonne of Rs. 818 per tonnes and we are quite happy that yes, our performance is better particularly if we look from manufacturing point of view. We have been going great and there is lot of scope still but then what I would like to say that each consumption per tonne of clinker, cement and power consumption per tonne of cement we are still one of the best in the industry. We have also started, like you must have observed, the production of composite cement and we can definitely proudly claim that we are also the biggest manufacturer of composite cement in India which is economical also as well as environment friendly also. And at the same time we are also biggest manufacturer of slag cement.

And friends, I am happy to share with you that in line with our disciplined capital allocation, we have repaid a gross debt of 388 crores during the quarter which has further led to an improvement in our net debt to EBITDA to 1.87. So, overall during 9 months we have repaid more than 500 crores of the gross debt. With regard to incentives, I am happy to share with you that in 9 months we have received around 500 crores of incentives and in years to come we have to also receive 500 crores incentive. With regard to our new capacities in East, that is on track. We have already spent around 10% of our CAPEX and we are hopeful that with the good project which is being done by our project team, we should be able to commission in time in FY21. Our Group continues to focus and upward towards environment and sustainability is going to long way and we are being recognized as worlds one of the leading cement player who is working on low carbon footprint, low carbon economy.

So, friend's this is what is from my side. I will be too happy to share thoughts with you as well as I will be able to answer your questions. Before that I would request my friend and our CFO Mr. Jayesh Doshi to share his thoughts. Thank you.

Management: Thank you Mr. Singhi. The one thing which at least Mr. Singhi has summarized what we have done but one thing I would like to start with that an apologies to all our investors and analysts that we try to complete the entire merger and listing quickly but there was some procedural difficulty which we also learned during the course of time and that is why there was about 10 to 15 days delays and what we are anticipated by 1st week of January that we get the listing done which fortunately is past us. The name change is again though technical but it is still a procedural because we have to remove it from the ROC and then get it. So, I apologies there is some amount of confusion in terms of the current ROC that is what the feedback which I have got from the investors and we would rectify at the earliest. As far as the debt is concerned we have continued repaying and our focus to reduce it in these kinds of times and despite our capacity expansion any surplus whatever we keep from free cash flows we continue to repay that. And we would as a strict, disciplined regarding capital allocation and our debt positioning.

I think, we are now happy Mr. Singhi and myself, we are happy to take questions from all of you.

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

Sumangal Nevatia: First question sir is on the volume growth. This quarter we have grown 8% and your commentary suggests market has grown by much higher rate. So, any particular reason for the market share loss which we faced?

Management: When we say market has grown 13%-14%, so that is a growth number of the 9 months and accordingly we have also grown 11%. But yes, in the quarter we have grown by 8% which is comparatively a bit lower and there maybe few reason. One, we have made efforts and positive efforts of increasing our prices and our branding also in East, on account of that to some extent there has been some lower growth. Secondly, major growth in East has come from Bihar. So, there also we are improving our presence. And thirdly, the major growth also has come from Telangana, so there also we have little presence. But now slowly we are expanding our market there also considering that we have enough capacity with us which can feed both the markets. So, I am quite hopeful that in time to come we will have a better growth.

Sumangal Nevatia: Next with respect to cost deflation in the coming quarter from freight, petcoke and some softening of slag prices as well. I mean, is it possible to quantify what is the cost tailwind which we would witness?

Management: It is difficult to quantify but at the same time, yes they are positive signs even in the month of February also. So, difficult to quantify but then yes things are better.

Sumangal Nevatia: One just last question on the expansion when we say FY21, which quarter are we expecting? And also if you could share some details with respect to the land and equipment ordering?

Management: Yes, so like we have already ordered for our Clinkerization unit which is being set up 3 million tonne capacity in East in Rajgangpur and the project work is on. Secondly, we also ordered for 2 grinding units in Odisha as well as in Bengal. So in Bengal, already project work has started. In terms of Odisha, we are expecting environment clearance by next month and then work will start and there also will be able to complete our work within 1.5 year. And in terms of Bihar, the acquisition of land process is on and in terms of progress I would say that progress is quite satisfactory and maybe in the second quarter of FY21 we can see our capacity to come up.

Moderator: Thank you. We will move to the next question which is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: I have few questions. First on the subsidy outstanding, we have received good amount of subsidy in cash this quarter. So, what would be the outstanding at end of December quarter, sir?

Management: This is around 500 crores.

Rajesh Ravi: 500 crores is the outstanding on books?

Management: 500 crores, yes.

Rajesh Ravi: And this Q3 what was the subsidy booked in the revenue number, sir?

Management: 14 crores.

Rajesh Ravi: And some of the operational numbers are like if you could share your production mix and trade, non-trade and fuel mix for the quarter or 9 month either of them would be helpful, please.

Management: Normally, we do not share those numbers except that yes, in terms of sales I can say that broadly 65% is our trade sale and 35% is institutional sales.

Rajesh Ravi: And fuel mix like you would be using for clinkerization all would be petcoke or is there imported coal also you are using?

Management: Wherever and whichever fuel is economical we are able to use it like in past also I have shared that we go on exploring it and then say like in East, wherever to some extent if coal is economical to some extent and that extent we use that coal. But otherwise say in South, in most of the plants it is just petcoke only.

Rajesh Ravi: And on this Kalyanpur and Murli, what was the current status like this year calendar, in Q4 would be we seeing some commercial sales from Kalyanpur also? Or that would mainly start in FY20?

Management: You are right. So it is FY20, yes.

Rajesh Ravi: And for Murli, like you said that NCLT hearing is due. So, I understand that after you get the position you would require another 7-9 months before the production may start from the plant. Is the understanding, right?

Management: Yes, you are right.

Rajesh Ravi: So, is this the only hearing after that you will get everything on place in terms of limestone access and all everything for that plant?

Management: First NCLT has to approve the resolution plan which has been submitted by COC. So, it may take 2 or 3 hearings. It all depends on the court and once NCLT approves it then it may take another 1 month to get the possession and then all process will start.

Rajesh Ravi: And so the cash outflow from the books for Murli, has it already been done, the payment?

Management: Nothing has happened because until and unless resolution plan gets approved by NCLT no payment will happen.

Management: Yes the hearing is in February. So, at least from what it looks like. We are at least estimating cash flow for Murli to happen from the next, for the next financial year.

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

Ritesh Shah: Sir, what is the sort of incentives that we will get on our incremental expansion projects that is Bengal, Orissa and Bihar?

Management: Yes, these incentives are as per our policy and once plant gets commissioned then only these incentives are approved. So, may be once we are in the process of producing cement then definitely we will be able to share with you.

Ritesh Shah: Sir, my second question is, if you could highlight what our mix is specifically PSC and composite wherein we are market leaders. So, I think we would have done a great job by moving more to composite and offsetting the slag inflation. Sir, if you can provide some color on volumes over here and how different is economics for PSC versus composite cement? That will be quite useful, sir.

Management: So, broadly I may say that we are producing about 15%-18% composite cement of total volume. And at the same time whatever this composite cement is produced in comparison to slag cement it maybe, from cost point of view it maybe Rs. 225 economical and third it is environment friendly also. And that is why we have now concentrated more on this composite cement.

Ritesh Shah: Sir, but how should one look at the brand positioning to what my limited understanding is Konark is a very strong brand and that is PSC. So, how has been our market positioning specifically when it comes to pricing on composite cement versus say PSC brands, the strong PSC brands that we already have in the market place.

Management: Yes, so from brand point of view it is being sold both in Dalmia and Konark depending on market-to-market and we are able to get the benefit even in composite cement also in view of our stock brand in East.

Ritesh Shah: Sir, I was just trying to understand how are you positioning both the products, composite versus Konark? Because Konark is very profitable very strong, so is it possible that you can pull back the brand and you can push more composite cement which is now 15%-18%. So, as such company level sir, how do you look at the economics and the placement of the brand in the market?

Management: Both composite cement and slag cement or even if you produce PPC all have been positioned as a good brand cement because it is coming from our Dalmia Bharat Group and there the brand equity is very good. So, whether it is a PCC, PSC or PPC it is branded in same way and we are also getting good response from the market accordingly.

Ritesh Shah: Sir, just last one question. Sir, any comfort on limestone lease allocation for Murli or is it something that you will comment only after NCLT hearing?

Management: You are right.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Systematix Shares & Stocks. Please go ahead.

Jaspreet Singh Arora: I have couple of questions. Starting with this incentive numbers how much we have booked in the last 9 months? I believe is it closer to 100 crores now?

Management: Yes, 126.

Jaspreet Singh Arora: And do we assume a similar 150 crores kind of a run rate for the next 1 or 2 years? I think that was an outlook given in one of the previous quarters.

Management: So, at the moment we would not like to comment on that. So, let incentive get accrued and paid and then we will be able to share with you.

Jaspreet Singh Arora: And the balance 500 crores, what is the outlook, sir? When do we expect to get that? I mean, let us say by March 2020 would that be received?

Management: There are better chances.

Jaspreet Singh Arora: And moving to the volume growth Mr. Singhi, if you can highlight, I agree that in 9 months the difference may not be huge. But for 3Q it seems that the Southern region has grown at a very healthy rate may be 20%-25%, North East may be at 7%-8% while our growth is 8%. So, is it anything beyond maybe we have been focusing more on realizations or better product mix or something else. This seems to be a big variance in the regional growth especially in 3Q if not 9 months?

Management: Yes, like if you look at South also, in South also when we reviewed internally we have grown fairly well in comparison to other peers also our overall growth also. So, with that difference is one like I have said earlier is of Telangana and to some extent there was some cyclonic impact in part of Tamil Nadu, Gaja cyclone, so that was there. So, to that extent only our growth has been lower but otherwise like market share in premium products or the A brand market, we have been able to maintain that. And we are quite hopeful that in time to come we will come out better.

Jaspreet Singh Arora: And is Kerala back to normal run rate now? I mean, in the normal monthly run rate or still somewhere …

Management: What do you mean by normal?

Jaspreet Singh Arora: The normal production run rate, I mean the growth rate in the state of Kerala after the calamity there?

Management: Yes.

Jaspreet Singh Arora: And just lastly on the cement prices, sir. How are they now? We heard it was a big price hike in most of the Southern states. So, if you can just highlight what has been in our markets, in the month of February?

Management: Like looking to the growth which is happening in various states and looking to the overall scenario which looks for future, yes the price increase to some extent has happened slowly and we expect that it may continue if demand also continues to grow.

Jaspreet Singh Arora: Possible to quantify the hike, sir? I mean, if broad range will also do?

Management: Broadly difficult but yes, there may be Rs. 10-Rs. 15 price hike in different states in Southern part.

Jaspreet Singh Arora: In the month of February, is that what you are saying or is that Jan?

Management: Yes, February.

Jaspreet Singh Arora: And anything to, I mean you mentioned in your press release on the low cost that the cost deflation helping from fourth quarter, especially on the diesel and also the slag side and possible to quantify what kind of uptick would be there in terms of cost reduction there in the fourth quarter given the softening in raw material prices?

Management: We may not be able to quantify but yes, like we have said it is also that prices are softening to some extent and that may see positive impact on our profitability.

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

Tanuj: This is Tanuj from Merrill Lynch. I had couple of questions. Firstly, you mentioned in the call earlier you have taken a price hike in East India. Could you quantify the price hike taken in East India? And have that price hike stuck in the market?

Management: Okay, what is your other question?

Tanuj: Second question I will probably get back after you answer my first question.

Management: So, yes there has been some price increase but at the moment difficult to quantify because it depends from day-to-day also and then how market reacts or other company reacts. So, difficult to quantify but then to some extent price increase has been seen in Eastern India and as well as in Southern India.

Tanuj: And sir, has the broader market taken a price hike in East India? And could you give a broad range for the price hike in east India?

Management: So, in East India it is in the range of Rs. 5 to Rs. 10.

Tanuj: And this has been taken by the entire industry in East India, is it?

Management: I may not be able to say that but then yes whatever and wherever we have taken the price increase that is going on.

Tanuj: Sir, my second question was I think we had earlier guided that the Kalyanpur cement rebranded now as Dalmia DSP could be operational from October 2018. Just wanted to check with you what is the now revised commissioning date for Dalmia DSP?

Management: That is probably should be on the 1st April where we have already started trial runs and we have started putting the cement also. We have also started branding and selling the cement also. So, we are quite hopeful that with continued and consistent production we should be able to launch properly from 1st April.

Tanuj: And sir, why was there a delay of 6 months between the initial guideline and now the revised time?

Management: It may not be the delay but then yes we had said that, yes production would start from 1st October. So, when we do trials then also production happens. So that was basically the starting of the production after revamping the plant.

Tanuj: And lastly have you seen any benefit of Axle Load norms in your third quarter FY19 results?

Management: Yes, little bit, little bit there has been.

Tanuj: Sir, once again would it be possible to quantify the benefit and how much more can we realize from Axle Load norms in fourth quarter FY19?

Management: Normally, in logistic cost, cost increase or cost decrease happens because of many reasons or the requirement of the companies. So, accordingly it may be very difficult to quantify, in fact Rs. 8 decreased due to that or Rs. 3 have gone up by diesel but broadly yes, there has been benefit and even truckers are happy and we are also happy.

Tanuj: The last question from my end. Our checks suggest that the price hikes in South India have been in the range of Rs. 30 to Rs. 50 per bag by the industry. Could you please confirm, what is the quantum of price hike taken by Dalmia Bharat? And is it lower than the industry average?

Management: I am not aware of industry average or your finding but what I am saying is that yes because of good demand, price increase in the range of Rs. 15 to Rs. 20 in various parts of the Southern region

Tanuj: So, has that been a case where in you push for a higher price hike and the prices were ruled back in the last week or so?

Management: No, not this.

Moderator: Thank you. The next question is from the line of Vibhav Zutshi from JP Morgan. Please go ahead.

Gunjan Prithyani: This is Gunjan. Just 2 follow up. Firstly on the Murli, there has been a lot of delay in the closure of this transaction. Is there something we should be worried about what is the real issue out here?

Management: There is no delay in closure of transaction because as per the law, first NCLT has to approve the registered plan which has been submitted by COC. So, in this case there has been some old cases going on in High Court and High Court had taken almost one year in deciding that, yes NCLT can hear and the case and can dispose of. On that account there has been delay from court processes and now 2 months back may be 2.5 months back then and the High Court cleared it that NCLT can hear it. Then NCLT started hearing it and you must have read in the newspapers that whatever way the IBC cases have going on. It takes time and we were quite lucky that in case of Kalyanpur because it was in early stage. So, this matter got finalized fast and now in case of Murli also we expect that yes may be within 2 months' time it should get fully completed. It all depends, the all process completion has to come from the Court only.

Gunjan Prithyani: And just broadly in terms of your capacity expansion strategy now we do have plans announced for East but is there something because you stated in past that we want to look at newer markets. Is there something you are constantly evaluating in terms of inorganic or organic growth? I am just trying to understand from a perspective of next 3 to 5 years, how should we look at your capacity expansion plans?

Management: Yes, these processes are on in the moment when we are able to finalize our capacity expansion program definitely we will share with you first.

Gunjan Prithyani: There is no inorganic …

Management: No but Gunjan, just to say that the plans that we are going to add 8 million tonnes and plus Murli as and when it happens. We as a corporate, continue to evaluate all opportunities if there are any that does not mean that we have plans to add capacity because inorganics happen if we get it a good price or good region the way we wanted to be. If you ask us the plan today the plan is 8 million tonnes and more. There are no other plan but as a cement company, as a growing company it is our job to evaluate each and every cement company because not only just to participate. But at least we get to know business is, we get to know the regions much more detail. So, that process continues but the plan as stand today it is the East expansion and volume that is it. So, in a 3 year perspective that is it.

Gunjan Prithyani: Just last question. There have been concerns that in terms of budgetary allocations, we are hitting up, we are facing challenges in terms of PMAY-G budgetary allocation has been low and the state physical concerns and we hit elections in next few months. How should we think of demand over the next 12-18 months? Do you think the demand moderate because we have had reasonably good 2 years?

Management: As per our understandings we expect that the demand growth should be 8% plus. So, it can be 8% to 10% and it is quite expected that the GDP growth would also range between 7% to 8% and the way now government projects are on and the way rural economy may grow. So, we expect that, yes, it should be 8% plus for next 2 years.

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

Vivek: This is Vivek. A few questions, first if I look at your second quarter FY19 release versus third quarter FY19. Second quarter numbers are undergoing a change. So, if I look at our revenue there is a 60 crores delta which is getting offset in the raw material cost. So, can you just explain what is the regrouping that would have undergone here?

Management: This 60 crores regrouping was set offs of the subsidiaries and associate in the entire merger process which has now been cleared it out and sorted it out.

Vivek: I mean, Jayesh bhai, given that it was a consolidated entity in the past also would not it with the treatment would have been the same? Because I would have thought the merger would have only hit one line item which was minority interest. Is that understanding not correct?

Management: Your understanding is right.

Vivek: Second, on the tax rate for let us say FY19 and 2020 what is the number that we can model in?

Management: May be we can share offline on this number.

Vivek: Third on the petcoke your comment about, I was just reading an article not sure if it is fully correct. But has there been a 10% kind of a surge in petcoke prices in the last one month or so, closer to 98?

Management: Not really because earlier like 2 months back it was around 105 which is around now \$90 to \$94. This is what …

Vivek: It is not 98-99.

Management: No, but for some company it can be it is as far as we are concerned it is around this range.

Vivek: And lastly Mr. Singhi, you mentioned about this already about Axle-Load but if I look at sequentially your freight cost is up 3%. Is there some accounting thing from revenues to a freight or because in quite a few companies we have seen a sequential decline in freight cost because of Axle-Load. And diesel prices if I just plot Delhi diesel prices chart to quarter-on-quarter there is, these are almost flat or maybe marginally down? So, why is your freight cost up 3% sequentially?

Management: Sequentially, it might have, to some extent it has gone up in North East because of some in certain areas where we have started selling more quantity. But maybe we may have to answer you offline.

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

Prateek Kumar: Sir, my first question is just wanted to confirm the incentive number it is 40 crores for the, I mean what is booked in our 3Q numbers on accrual?

Management: 14.

Prateek Kumar: But for previous 2, I mean you said it is 126 crores for the full 9 months, previous 2 quarters had like around 40 crores and 39 crores as per your previous comments. So, …

Management: It is 14 crores this quarter, about 45 odd crores in quarter 2 and overall 9 months is 126. So, balance remains in quarter 1. So, 126 is the correct number for 9 months.

Management: But yes, 126 crores number is right.

Prateek Kumar: And sir, regarding trade, non-trade mix, you said 65% for current year. So, like-to-like 9 months number like let us say approximately what could be there for like last year FY18?

Management: Broadly the same.

Prateek Kumar: And sir, from your comments on previously in the call, on Murli industries so we should expect volumes from Murli from 4Q 2020? Is that correct?

Management: Maybe, because we will be able to commit only once we get resolution in plan approved from the NCLT. And once we handover our payment then we can say that yes, after 8-9 months of that date we can expect production.

Prateek Kumar: So, I mean in some likelihood it may get further delayed also? I mean, depending upon clearances, etc. or approvals?

Management: You are right.

Prateek Kumar: And sir, just a question related to the previous participant question. So is there, I mean how would have in the lead distance changed because it seems there is an increase in freight cost and ex-rate realizations look lower even more than what is reported. So, lead distance is significant change quarter-on-quarter?

Management: No, it is almost …

Management: Almost same. Maybe 7 kilometer-8 kilometer here and there, that is all.

Prateek Kumar: And sir, just on reported basis what according to you would be like Q-on-Q price change in this quarter because we have now stopped giving segmental revenues of like refractory business. So, what would be the sequential relation change according to you?

Management: So, refractory numbers …

Management: Yes the revenues are the same.

Management: The difference in the realization will only be on account of the incentive booking but otherwise the more or less the mix between the refractory and revenues ex of refractory is almost the same.

Prateek Kumar: Yes, so like-to-like what would be the realization change on a quarter-on-quarter basis?

Management: Probably you will see the softening by say about a percentage and a half or something that is about it.

Prateek Kumar: So, that looks actually lower than what looks on the reported number. Probably that is related to incentives.

Management: Yes, so that is what I said, other than the incentives number, otherwise ex of refractory that how you need to look at. But otherwise it is an incentive number that kind of changed quarter-on-quarter and Y-o-Y materially.

Prateek Kumar: And just one last question on, I mean like the way pet coke prices softened probably from $110 to $90. So, what is the kind of price softening which we have seen in slag from like let us say Rs. 1,000 per tonne to what is the kind of softening which we have seen there?

Management: Reduction is just in the range of Rs. 100-Rs. 125 per tonne of slag.

Prateek Kumar: Sir, from base size of what like …

Management: So, the slag was about 1,430 odd per tonnes in quarter 2 of FY19. So, from that level you will see say about 100-120 odd bucks down.

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

Amit Murarka: So, this refractory acquisition that you have done in Germany I believe. So, just wanted to understand the game plan in the business like, is it like you would like grow even bigger in overseas business? Or this is more like a one-off acquisition?

Management: No, let me tell you on refractory?

Amit Murarka: Yes.

Management: No, the refractory acquisition is nothing is not at all than in Dalmia Bharat. The refractory acquisition which we have been done in Germany is in Dalmia Refractory which is now, it is a separately listed company. It has nothing to do with Dalmia Bharat or OCL. So, only aspect of refractory business which is there in OCL which is 2% to 3% will post all demergers because it was too much of a complication to actually now take our refractory. We are just taking our breather otherwise as I said the process took so long that we are just trying to take breather actually consolidate refractory business outside of this Dalmia Bharat OCL Cement Co. So, our acquisition of Germany has nothing to do with Dalmia Bharat.

Amit Murarka: And so, slag has been an issue recently and there are lot of slag base capacities coming up in East India now and then you will also have, I mean more upward of 8 million tonnes. So is there enough availability or increase in availability in the next 2 years? My understanding is that there will be shortfall with so many capacities coming in.

Management: As per our understanding and as per the few new capacities which are coming up in the store which is capacity which are getting ramped up on account of the acquisition of steel plant by the Tata or JSW. We are expecting that we will be able to get the required quantity of slag. And another thing is that few companies might have also switched over from say slag cement to PPC also. So, as far as say our understanding goes and our tie-ups and procurement strategy goes we will be able to get the required slag.

Amit Murarka: So, just to understand that better, so do you have like medium- and longer-term contract? I know you will have a Bokaro plant, for other plants what is the kind of sourcing strategy mostly spot or there are some medium terms contracts or volumes?

Management: Mostly it is what somewhere it is 3 months, somewhere it is 4 months. But still we are very well-placed on account of say our proximity to the steel plant.

Amit Murarka: And just on this Kalyanpur, what is the kind of EBITDA that we can expect once the full ramp up achieved in terms of margin basically?

Management: May be in the next quarter we should be able to share with you.

Amit Murarka: And just lastly, so now that the restructure is largely done. I mean, one of the general concerns that investors have is, I mean in terms of the high cash and liquid balances. So, is there any kind of thought that to kind of reduce the gross debt levels and kind of pay offs …

Management: No, I think let me take. I think, whether it is restructuring or consolidated our views on cash balances were very clear that we are reducing gross balances and gross adequacy quarter-on-quarter we are paying more than what is due. And process continues also this cash balance sheet actually will also start little reducing and it is a part of my equity is still go through my east expansion. So, I do not mean that cash balance is going very high and will continue to maintain what the current levels are.

Moderator: Thank you. The next question is from the line of Dheeraj Pathak from Goldman Sachs. Please go ahead.

Dheeraj Pathak: The slag and fly ash prices mentioned in your presentation, those are at our, these costs are landed cost or those are at the factory gate of the steel producer?

Management: Landed cost.

Dheeraj Pathak: And just wanted to confirm what you earlier answered, so realization for the cement business are down 1.5% quarter-over-quarter adjusted for incentive and the refractory business, right?

Management: More or less yes.

Dheeraj Pathak: And now we have seen stark decrease in incentives quarter-over-quarter. So, this is the current run rate for incentives?

Management: So, we are still working out the incentive as far as the new capacity and the acquisitions are concerned which is both Kalyanpur and Murli also has some incentive. But broadly what you can say is yes for now the run rate will remain the same unless a new one start coming in.

Dheeraj Pathak: They seem to have been some expiry of some incentive because …

Management: Yes.

Management: So, maybe that is why the run rate is around this.

Dheeraj Pathak: But we can say that at least now this is a fair reflection because per tonne basis hardly contributing anything. So that people always had a concern of overstatement of realization that is gone now, right?

Management: Yes.

Management: Earlier also there was fair reflection and this is how accounting is done by not only cement industry but overall corporates also.

Management: And it is just not overstatement. If you see the cash received also has now started to come this year because the earlier last year there was a concern that we are just overstating and we actually explained that we are not overstating we are just following the accounting policy of Ind AS which is got changed and we have to accrue everything with together. And today you have seen that usually it takes 1.5 to 2 years for incentives to actually the cash coming and that is what we are doing even this year we have got about 500 crores. So, that is the entire efforts will be it is just not an overstatement but the entire subsidiaries will be received and all efforts are going towards that.

Dheeraj Pathak: No, definitely I am just saying from the street concern point of view. They at least now the incentive figure is down meaningfully. So, the realizations now reflect more the cement realization like-to-like rather than.

Management: Cement realization, no, the realization always reflecting cement. Because even though it is when we say realization because incentives have to and incentives are always a part of our CAPEX in a particular state. So, whichever way you may look at it, it is not something receipt. And as I earlier also said the incentives is part of business because when you look at any CAPEX, yes we do analyze it on ROE, ROA without incentives and with incentives.

Moderator: Thank you. The next question is from the line of Dheeraj Pathak from Goldman Sachs. Please go ahead.

Dheeraj Pathak: So on slag sir, you mentioned that the price, the procurement is mainly spot but we have a strategic locational advantage, right?

Management: You are right.

Dheeraj Pathak: What is the distance, lead distance for slag on an average, you can just share?

Management: Difficult to share.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, 2 questions. First is with this recent incident in Meghalaya in the coal mine. Is there any disruption that we might face in any of our plants in terms of fuel supply?

Management: No, disruption please. We had stock also otherwise also we are procuring coal from Eastern side also. So, there is no concern as such about continuity of the business.

Pulkit Patni: But we used to procure coal from these mines?

Management: Yes, whatever coal was available from these mines we were procuring and we were getting coal from outside also. But since now earlier the government had and the Court had allowed transportation of the stock from the stock piled to the factories. So, that was being transported and received. But now transportation has also been banned. So, now we are procuring coal from outside, North East.

Pulkit Patni: And does that in anyway increase fuel cost for us?

Management: To some extent, yes.

Pulkit Patni: Which should reflect in the next quarter?

Management: Yes, to some extent.

Pulkit Patni: Sir, my second question is we have heard that for the first time clinker imports have started coming through on the Eastern coast. Have you seen any impact of this on the market and how do you see that impacting demand going forward for us?

Management: It is not first time, it was being done in little quantity earlier also and little quantity now also. So, there is no major impact as such on overall market equilibrium.

Pulkit Patni: But we understand the quantities are a lot bigger this time around?

Management: Lot means?

Pulkit Patni: Above 3 million tonnes.

Management: I think, you need to check the figure.

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

Bhavin Chheda: Sir, what was the geographical sales volume mix in the quarter and the 9 months? And my second question what was the CAPEX number, I missed out for 9 months?

Management: For geography, for us it is the India and so we share one number. And second question is about CAPEX for new project, so this around 350 crores.

Bhavin Chheda: Total CAPEX of the company or just new projects?

Management: No, on these new projects.

Management: New project.

Bhavin Chheda: And total for the company would have been?

Management: This could be around 450 crores. 430 crores-450 crores.

Bhavin Chheda: Sir, you are not sharing this volume which will be South and non-South?

Management: Bhavin, this excludes the amount paid for buying Kalyanpur.

Bhavin Chheda: And that would have been how much this fiscal?

Management: We bought Kalyanpur at 200.

Management: Total is 430 and …

Management: Kalyanpur is 32.

Management: Yes, what was second question?

Bhavin Chheda: How much you paid for Kalyanpur, this fiscal?

Management: The entire thing is being paid this fiscal year what we bought from Kalyanpur was about 200 crores. And specific CAPEX on Kalyanpur which will be about 60 crores to 70 crores will be spread over 15 to 18 months for improvisation.

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

Vaibhav Agarwal: Thank you. On behalf of PhillipCapital (India) Pvt. Ltd, I would like to thank the management team for this call and also many thanks to the participants who are joining the call. Thank you very much, sir. Margaret, will now conclude the call. Thank you.

Moderator: Thank you. On behalf of PhillipCapital (India) Pvt. Ltd, that concludes this conference. Thank you for joining us and you may now disconnect your lines.