Dalmia Bharat Limited

1010/02 May 1, 2024

BSE Limited
P J Towers, Dalal Street,
Fort Mumbai-400001
Scrip Code: 542216

National Stock Exchange of India Limited
“Exchange Plaza”, Plot No. C-1, Block G
Bandra – Kurla Complex, Bandra(East),
Mumbai – 400 051
Symbol: DALBHARAT

Subject: Transcript of Q4 FY24 & FY24 - Earnings Conference Call

Ref.: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)

Dear Sir/Madam,

In terms of Regulation 30 of the Listing Regulations, please find attached transcript of the Q4 FY24 & FY24 Earnings Conference Call held on April 25, 2024 for the quarter ended March 31, 2024.

The same will also be uploaded on Company's website: www.dalmiabharat.com

Kindly take the same on record.

Thanking you,

Yours Sincerely,
For Dalmia Bharat Limited

RAJEEV KUMAR
Digitally signed by RAJEEV KUMAR
Date: 2024.05.01 18:22:34 +05'30'

Rajeev Kumar
Company Secretary

Encl: a/a

“Dalmia Bharat Limited

Quarter and Year Ended March 31, 2024 Conference Call”

April 25, 2024

MANAGEMENT: **MR. PUNEET DALMIA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – DALMIA BHARAT LIMITED**
MR. DHARMENDER TUTEJA – CHIEF FINANCIAL OFFICER – DALMIA BHARAT LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of Dalmia Bharat Limited for the Quarter and Year Ended March 31, 2024. Please note that this conference will be for 60 minutes and for the duration of this conference call, all participant's lines will be in the listen only mode. This conference call is being recorded, and the transcript may be put on the website of the company. After the management discussion there is an opportunity for you to ask questions. Should anyone need assistance during the conference call please signal an operator by pressing star then zero on your touchtone phone. As a reminder all participant lines will be in the listen only mode.

Before I hand over the conference to the management, I would like to remind you that certain statements made during the course of this call may not be based on historical information or facts and may be forward-looking statements. These statements are based on expectations and projections and may involve a number of risks and uncertainties, such that the actual outcome may differ materially from those suggested by such statements.

On the call, we have with us Mr. Puneet Dalmia, Managing Director and CEO, Dalmia Bharat Limited; Mr. Dharmender Tuteja, CFO, Dalmia Bharat Limited; and the other management of the company. The earnings release has already been uploaded on the company's website.

With this, I will now hand the conference over to Mr. Dalmia for opening remarks. Thank you and over to you sir.

Puneet Dalmia: Good morning, everyone. I will begin with an overview of our performance, and then Dharmender will provide a more detailed explanation of our operational and financial aspects. During the quarter, we have delivered a healthy volume growth and have regained our market share. If you recall, we had lost market share in the first half of the year. We undertook some corrective actions and subsequent volume recovery during the last 2 quarters makes us believe that the whole issue is now behind us. While we have regained market share, the volume growth has come at a higher cost.

During the quarter, the prices in our key markets declined. And due to lower realizations and higher cost, our EBITDA per ton declined to INR743 per ton. The price drop in Q4 is far more than what we have seen in similar periods in any previous year. Prices on an average declined by 7.5% Q-o-Q, while exit prices in March were lower by 9% to 10% compared to Q3 average.

Generally, Q1 sees a price increase across the markets. However, we have not seen it so far. I believe that the prices may remain soft in the first 2 quarters. And price increase, if any, may happen from Q3 this year onwards. During Q4, to regain market share, we have incurred some incremental costs, some of which we believe would be corrected over the next few quarters. Dharmender will take you through the details in his opening remarks.

Coming to the outlook for the sector. I continue to believe in the India growth story, and we believe that we will continue to see the GDP growth upward of 7% in the coming years. Since cement would play an important role in the India growth story, led by all round infrastructure development, housing and private capex, I believe that the cement demand should grow between 8.5% to 9%.

I believe that we can deliver a volume growth of 1.5x of the sector, excluding sales from the Jaypee assets. The additional volumes from Jaypee should give us an incremental 4% to 5% growth on an overall basis. During the year, financial year '24, we have added 6 million tons of cement capacity and reached closing capacity of 44.6 million tons. Our 1 million ton expansion at both Ariyalur and Kadapa is under trial run production. We have also added 0.9 million tons of clinker capacity in South during the year.

The Jaypee transaction has taken longer than we anticipated, but it is progressing in the right direction. As you all must have read in the papers, NARCL has put in a bid to buy the entire debt of Jaypee and it is under evaluation by the current lenders. We understand that the lenders are keen to create lending capacity on their balance sheet by transferring this debt to NARCL, but there are procedural delays, which are beyond our control and the transaction closure may get pushed out to Q2 of this year.

We continue to establish our brand and distribution in MP and UP through the tolling arrangement with Jaypee. In Q4, we sold 0.6 million tons from Jaypee. And in financial year '24, we sold 1.4 million tons through this tolling arrangement. Some questions were raised regarding our limestone reserves. We have already clarified that we have sufficient reserves, and there have been some gaps in the information that resides in the public domain, which is in the process of getting corrected.

For example, in case of our Murli plant, the updated records now show that our limestone reserves are up from 3 years to 22 years. We are very excited about the promise that this sector holds. We remain convinced about the structural trends that support secular demand growth, rising entry barriers and further consolidation in the sector. While prices may remain under pressure, we will continue to invest in our brand, deepen our cost leadership and focus on organization building.

Now I will request Dharmender to take you through the detailed financial performance for the year and the quarter gone by. Thank you.

Dharmender Tuteja: Thank you, Puneet. Good morning, everyone. Let me take you through the key aspects of our performance. During the quarter, we delivered a healthy volume growth of 18.5% Y-o-Y and sold 8.8 million tons. On a full year basis, our volume growth was 11.8% Y-o-Y and sales volume was 28.8 million tons. Our overall trade mix has improved to 65% during the year from 63% last year. Our revenues during the quarter increased by 10% Y-o-Y to INR4,307 crores and full year by 8.4% Y-o-Y to INR14,691 crores. However, NSR declined 7.5% Q-o-Q to INR4,891 in Q4 as prices declined in our key operating markets.

During the year, we launched a new brand campaign, "RCF Strong toh Ghar Strong", and repositioned Dalmia as Roof, Column, Foundation Expert. That is our RCF Expert. We have invested about INR70 crores during the quarter in marketing, which is an increase of about INR30 crores on a Q-o-Q basis. Our raw material costs during the quarter has increased by 4% Y-o-Y to INR771 per ton of cement production with about 2% to 6% increase in slag and fly ash costs. If you add purchase of stock-in-trade goods under tolling arrangement with Jaypee

Group, the increase in the financials would appear much higher as our volumes from Jaypee plants are increasing quarter-upon-quarter.

Power and fuel costs declined 21% Y-o-Y to INR1,018 per ton of cement, mainly due to $48 decline in the fuel consumption cost on a Y-o-Y basis. With this, our blended fuel cost during the quarter stands at INR1.45 per Mn Kcal rate. Besides the correction in fuel prices, our efficiency parameters like usage of renewal power improved to 27% from 21% in FY '23. Bring about more predictability and sustainability in our costs, we'll continue to invest in renewable power and operationalize our own coal mines during the year.

During the quarter, in order to regain market share, we have incurred additional logistic costs and as a result of which, our logistic cost increased by 4.7% Y-o-Y to INR1,158 per ton. We believe that a large part of this increase will be corrected in the coming quarters. During the quarter, our finished WIP and stock-in-trade inventory declined by INR137 crores. This also led to increase in cost of goods sold by about INR40 per ton and the fixed overheads, which are inventorized came as a charge to P&L.

This will reverse in coming 2 quarters when inventory levels rise and on a full year basis, such effects get neutralized. Most of the charge coming in Q4. Other expenses like sales commission, depot related expenses, coupled with increase in repair costs, material handling and packing expenses have increased by INR92 crores on a Y-o-Y basis due to higher volumes. Overall, our EBITDA during the quarter declined by 7.8% Y-o-Y to INR654 crores. This translates to an EBITDA of INR743 per ton. On a full year basis, EBITDA increased by 13.4% Y-o-Y to INR2,639 crores with INR917 per ton of EBITDA.

On incentives, we accrued INR93 crores during the quarter and collected INR98 crores. On a full year basis, our accrual and collections are also largely the same. Accruals were about INR298 crores, while collection has been INR314 crores with closing outstanding of INR701 crores. For financial year '25, we expect the total incentive accruals to be around INR300 crores.

The other income during the quarter has increased by INR82 crores on Y-o-Y basis to INR120 crores, primarily due to higher treasury income, coupled with increase in dividend income by INR14 crores, receipt of interest subvention, incentive income of INR22 crores, about INR11 crores interest on income tax refunds for earlier years and the realization of insurance claims of INR9 crores.

During the quarter, we have reviewed our accounting policies and practices with leading industry players and make changes in few of these to align with industry practices. Due to the certain line items and the reported financials for previous years has also been restated. While we have made the appropriate disclosures in the results released yesterday, let me briefly take you through these changes.

First is we have revaluated the economic benefits derived from property, plant and equipment of our Northeast units and decided to change the method of providing depreciation on PPE from written down value method to straight line method with effect from January 1, 2024. Now we are providing depreciation on SLM method across the company. Further, we have also reassessed the salvage value of the building and other plant and equipments from 1% to 5% of the cost with effect from January 1, 2024. Consequent to both these changes, the depreciation during the quarter was lower by INR46 crores and INR14 crores, respectively.

Secondly the classification of unwinding of income on interest free loan from state government has now been reclassified to other operating income from other income. Consequently, our revenue from operations has now been restated. The impact of reclassification is included in our financial reports. With above changes, the depreciation during the quarter declined by INR8 crores on a Y-o-Y basis.

However, it has increased by INR193 crores for financial year '24 when compared to financial year '23. Of this increase, INR108 crores pertains to components of plant and equipment, which were replaced as part of our overall debottlenecking projects. We expect depreciation to be in the range of INR1,350 crores to INR1,400 crores in FY '25, excluding the impact of Jaypee plants depreciation.

Our profit after tax for the company stands at INR853 crores during the year against INR1,079 crores in FY '23. If you recall, we had a gain of INR554 crores in share of profit in associate, INR125 crores tax thereon and INR144 crores loss in exceptional items last year, which was primarily due to the recognition of sale of our refractory business. Same is not there in the current year or current quarter.

Our planned capacity expansion at Kadapa and Ariyalur for 1 million ton, each is under trial run and will be commissioned in the current quarter. We are also progressing well on 0.5 million ton expansion in Rohtas and 2.4 million tons in Lanka, Northeast, which is expected to come by end of FY '25. Considering all organic and the proposed Jaypee acquisition, we are likely to close this year at 58.9 million tons of cement capacity.

The capital expenditure during the full year FY '24 was INR2,827 crores against our expectations of INR3,000 crores. We expect capex spending of about INR3,500 crores to INR4,000 crores of capex in FY '25, which will largely include spends towards Northeast expansion projects, Rohtas Cement plant in Bihar and also certain ROE and maintenance capex. This will be besides the outflow for Jaypee assets, which is expected to be around INR3,500 crores for 5.2 million tons, cement capacity of Rewa, Churk, Chunar, and Sadwa, and 2.2 million tons for Jaypee -SAIL assets. With this capex, we expect our peak gross debt to be about INR9,000 crores and net debt of about INR5,000 crores to INR5,250 crores by year-end.

As of 31st March, our gross debt has increased by INR887 crores, and the closing debt stood at INR4,651 crores. At the same time, our net debt declined to INR484 crores, resulting in a net debt to EBITDA of 0.18x as of 31st March.

Lastly, in line with the capital allocation framework, the Board has proposed a final dividend of INR5 per share, which is subject to the approval of the shareholders in the ensuing AGM. This is in addition to the interim dividend of INR4 per share. A total dividend declared for the year, including interim, is INR9 per share.

With this, I now open the floor for question and answers. Thank you very much.

Moderator: Thank you very much, sir**.** We will now begin the question-and-answer session. The first question is from the line of Ritesh Shah from Investec.

Ritesh Shah: Sir, I had 2 questions. First was on Jaypee. How much money did we make on a per ton basis on the tolling that we did, 0.6 million tons for the quarter and for the fiscal? That's one bookkeeping. And the second question is, would it be possible for you to actually bifurcate the entire 9.4 million tons? So we understand that 5.2 million ton part of the kitty is pretty much clear. So how should we look at it?

So you indicated Rewa, Chunar, Churk as one. Then there's the Bhilai facility, which is there. So what is the sort of clarity that we have on this particular asset when it comes to procurement of the clinker? Likewise, on Nigrie and lastly on Super Dalla. So if you could please provide some clarity from a legal aspect as well as the process. I understand timelines will be tough, but would be interested to know the process, sir.

Puneet Dalmia: So I think on the Rewa package, we have already said that this requires NOC from the banks. The banks, –as we understand that they're trying to sell their loan to NARCL so that we don't have to deal with 35 banks to get an NOC, but it is only from 1 person who holds the loan. I think this process is undergoing and progressing quite well, although there are some procedural delays, and we expect that this should get consummated in the second quarter of this year.

As regards to the SAIL package, this requires SAIL to take a view as they're a joint venture partner, whether they want to buy, hold or sell. So they have a right of first refusal. And so either they can buy the shares or they can sell the shares to us or they can continue to remain a joint venture partner. So I think SAIL is still evaluating the proposal. And I think, again, once the SAIL has evaluated the proposal, they will come back to us. I think this is the legal process in both the packages. Dharmender, you want to add anything?

Dharmender Tuteja: The capacity breakup, this 5.2 million is one consolidated transaction, Rewa, Chunar, Sadwa, so all of this comes together. And the second separate transaction is Nigrie plus BJCL which has 4.2 million of cement and 1.1 million of clinker.

Ritesh Shah: All right. Sir, you indicated that the lenders will need a NOC over there. Who's the lead banker over here? Have the banks already approved it or the consortium still needs to approve the bid? And is there scope of some probability for a re-auction over here? Or should we assume that we should roll it out?

Puneet Dalmia: I think until the company goes into NCLT, there is no -- banks are not driving the process. This sale process is being driven by the Jaypee Board and the Jaypee shareholders have to approve it. and the Jaypee shareholders have already approved the transaction. Board has already approved the transaction. We already have CCI approval for the transaction, and all we need is the bank's NOC because the company is in default of the loans.

Ritesh Shah: Okay. Lastly, Jaypee profitability on the tolling volumes?

Dharmender Tuteja: So on profitability, we would not like to share currently.

Puneet Dalmia: We don't share regional breakup of profitability.

Ritesh Shah: **Thank you so much sir.**

Moderator: The next question is from the line of Rajesh Kumar Ravi from HDFC Securities.

Rajesh Kumar Ravi: My first question is on this Super Dalla, what is the status on the same? And then a few housekeeping questions, vis-a-vis trade, non-trade and the blended cement, which I'll come back?

Puneet Dalmia: As we've said earlier, also Super Dalla, Jaypee is in arbitration with UltraTech. And I think our transaction is subject to the outcome of that arbitration. So that arbitration is going on right now. And till we know the outcome of that arbitration, I think this deal cannot be done till the arbitration is concluded.

Rajesh Kumar Ravi: Okay. And this INR3,500 crores, which you are targeting for the acquisition, that is only for the Phase 1 acquisition or that includes even the 4.2 million tons?

Dharmender Tuteja: It includes BJCL, SAIL also, and Nigrie will be on the long-term lease.

Rajesh Kumar Ravi: Okay. And coming to these housekeeping questions, what was the blended cement, trade share and premium share in this quarter?

Dharmender Tuteja: Trade sales were 65% for this quarter. Premium products were 21%, and the blended sales for this period is, 87%.

Rajesh Kumar Ravi: And sir, green power share and fuel mix?

Dharmender Tuteja: Green Power for this quarter is 28% and fuel mix, pet coke is about 56%. Beyond that, we don't share.

Rajesh Kumar Ravi: And CC ratio?

Dharmender Tuteja: CC ratio for the quarter is 1.67.

Rajesh Kumar Ravi: Okay. Sir, one last question. In this quarter, we have seen very strong volumes, but the margins have taken a significant beating. So what is the outlook in terms of these margins whenever we see like you targeting 1.5x industry growth? So will that growth come at a significant lower margins or INR1,000 EBITDA margin, which the company has historically delivered? That is not a pipe dream or a distant dream for the place like you and for the industry in general, will this -- should we be factoring decent margins when we are targeting strong volumes?

Dharmender Tuteja: So basically, as you also heard from Puneet-ji and in my opening remarks that this additional cost also entails some of the incremental costs on the logistics, on the branding and some of the other things. So a couple of these things will definitely be reversible. They'll get neutralized or corrected in the next couple of quarters. So we expect this margins recovery to happen. But of course, the selling prices also play in an important part, which we expect that in the first 2 quarters, they may remain soft. And in third or fourth quarter once the prices improve, definitely, the profitability margins will be healthier.

Moderator: The next question is from the line of Satyadeep Jain from Ambit Capital.

Satyadeep Jain: Just first on the depreciation, change in depreciation policy. I know about 4 - 5 years ago, the company had changed the depreciation policy to WDV for Northeast assets. So what is leading to all these changes? What was the rationale back at that time to change to WDV given you had an outlier at that time?

Dharmender Tuteja: Yes, Satyadeep, you are right. The earlier change when we did at that time, we had benchmarked the Northeast plants to the Northeastern players. Like Star and other players in Northeast, most of them do WDV method of depreciation. But currently, now when we have realigned it, we have realigned to the national players, all leading players, most of them, they have SLM method. So the entire company now we have moved to the SLM method.

Satyadeep Jain: Okay. Just on the other expenses, you mentioned about INR30 crores is reversible. Is that right, from the current quarter because other expenses did increase?

Dharmender Tuteja: No, when I said the INR30 crores has increased, and we also continue to focus on our branding and activities. So this INR30 crores may not reverse soon in the current year, the focus on branding will remain. But the other things which I said, the inventory depletion had an impact of about INR40 per ton of overheads getting charged, that is reversible because first 2 quarters inventory build up and rather there will be negative charge of fixed overheads and the increase in cost on account of logistic or depot expenses or sales commission, etcetera, which went up in the quarter 4, these will normalize in the coming quarters. And also one more thing, logistics cost also is going to normalize. So these things will happen, which will be taking it to normal positions.

Satyadeep Jain: Okay. Fair. Just one clarification. Just one question on the timeline for the medium-term capacity expansion that you had outlined. When are you thinking of putting it up?

Puneet Dalmia: We are still debating that within our management team and our Board. I think we will take a few more quarters before we can come back to you with a plan for the further expansion.

Moderator: The next question is from the line of Nikunj Mandowara from UBS Securities.

Nikunj Mandowara: Just wanted to get more color on how do we see the volume growth year-over-year for the next years, and we are seeing 8.5% to 9%. But how do we see this playing out quarter-wise? But I expect H2 will have to do the heavy lifting in the volume growth here? And sir, secondly, related to this, what is giving us confidence that pricing should bounce back in H2? Because if I look, I think there is a lot of fresh capacity, which is going to come in H2 by UltraTech by Shree and even if the Jaypee acquisition is completed than even for us. So what has given us confidence that pricing should bounce back in H2?

Puneet Dalmia: No, I think nobody can forecast prices. All I said was that I don't see any strong momentum in the market right now. And if at all, the prices correct, they will correct in H2 because the first quarter is election. Second quarter is monsoons. And if at all, there's some recoveries likely to happen post the monsoon quarter and the election quarter.

Nikunj Mandowara: Okay. And sir, on the volume growth question?

Puneet Dalmia: So I think we have said that we think we can grow at 1.5x industry and Jaypee assets can further add 4 to 5 percentage points in terms of volume growth. So I think it's hard for us to give quarter-by-quarter forecast on volumes, but I think we are giving a general guidance on how we think we can grow on a sustainable basis.

Moderator: The next question is from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: Sir, I have a question, which is more on a strategy or a medium-term viewpoint, not just on this quarter. So what role does operating leverage play in our business? We understand variable cost is one part, which is maybe power and fuel, freight etc. But even after such strong volume growth, we have not really seen the benefits of operating leverage in the last few quarters. So going ahead, where do we think we can really beat the Street on costs, particularly not on volume growth, but on fixed cost recovery?

Dharmender Tuteja: See, the fixed costs have been created for a much larger capacity in the coming years. So when we envisaged that we'll be growing capacity to about, let's say, 25 million tons. But anyway, so even the medium-term plan for the next year is about 58- 59 MnT. So the costs have largely been created. And now I think as we improve the capacity utilizations, so this operating leverage will definitely come into picture.

Puneet Dalmia: Having said that, I think we will invest some amount of it into brand building. So part of it will come as an expense on our P&L, but we think it's a long-term investment and it will help us in the longer run with better margins. So I think some of it will show up as operating leverage as fixed cost gets amortized over a higher volume as we utilize our capacity. But part of that we will reinvest back into building our brand.

Indrajit Agarwal: When you say brand building, is it more of advertisement or more of dealer incentive and dealer discounting? How should we look at ?

Dharmender Tuteja: So it is mainly the brand as well as the activities which we do around dealer shops marketing activities, technical services activities, customer relationship management activities, not the discounts, because once the marketing expand and brand strength improves, discounts will go down. You don't require discounts to push up your sales volume. So that was the idea that there should be a demand pull through brand, better strength of the brand rather than need to push sales through discounting.

Indrajit Agarwal: And my last question is on power and fuel. Any further reduction expected in the sense, what is the spot cost versus what we have booked in fourth quarter?

Dharmender Tuteja: So basically, the next quarter, you can expect another reduction of about 1%- 2% because pet coke prices have largely stabilized in the last couple of months. In the first quarter, rates are already contracted. So you can expect about 2% drop from the current quarter level.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: First question is, is it possible to give the breakup of Jaypee and organic volumes in fourth quarter? And I want to understand basically on a year-on-year basis, how much ex of Jaypee has the volume grown?

Dharmender Tuteja: So out of 8.8 million total sales, 0.6 million is on account of Jaypee and rest is on account of for existing plants volumes. So ex of Jaypee, I think the growth is about 12%.

Sumangal Nevatia: Okay. And last year, fourth quarter, it was 0.1 or something, Jaypee volumes?

Dharmender Tuteja: That was, yes, 0.1.

Sumangal Nevatia: Okay. Got that. I mean, just from a strategy point of view. I mean, if you look at FY '24, a few quarters, you lost volumes. Now we've regained volumes at the cost of margins, which is not -- I mean this kind of a volatility in performance is not there with peers, right? So I mean, from an FY '25 point of view, how should we look -- I mean, for the management, what is the priority? Is it earnings? Is it market share volumes or margins? Some thought process if you could share?

Dharmender Tuteja: Thurst on the market share regaining will continue. But of course, as I said, our costs, which got increased in Q4, will get normalized. So the quality of sales also will improve. But definitely, the volume improvement will remain the #1 priority.

Sumangal Nevatia: Okay. Okay. And I mean, directionally, is it possible to share? I mean, in the contribution from tolling, is it a negative contribution? And just to, I mean, penetrate new markets, are we doing the sacrifice till we get these assets under our umbrella. I mean just directionally, is it possible to share how the margins or contribution is comparing versus organic volumes?

Dharmender Tuteja: The current, we'll not like to share the separate profitability of Jaypee operations, but you can expect that we'll bring these plants to our normal cost structure of Dalmia in about 2 years. So in the third year, we can expect similar profitability as we get in the rest of the group. But 2 years to gradually improve the profitability.

Sumangal Nevatia: Okay. Got it. And just one last thing on the prices in the opening remarks. Did we confirm that we've not seen any price increase in East and South in our core markets in the month of April because there are a lot of reports suggesting an attempt of a big hike. But can you just share what's been the on-ground situation in the last few weeks?

Dharmender Tuteja: Yes. In the April month also, we have not seen any improvement. So we are close to the exit levels of March, which is about 9% to 10% lower than the Q3 levels.

Sumangal Nevatia: Okay. And what would be the exit level versus 4Q average?

Dharmender Tuteja: Compared to Q4 average, it will be about 2% lower.

Moderator: We'll take the next question from the line of Pulkit Patani from Goldman Sachs.

Pulkit Patani: One question. I mean, you yourself said in your opening remarks that this is unprecedented in terms of the price action that you have seen. Could you highlight why these kind of price correction happened? Is it just because in a pre-election period, everybody wanted to get to volumes, which is why price wasn't a consideration? And if you could also get a sense of why this should change given everybody is adding capacity because it's pretty worrisome in terms of the way price action had happened in the sector in this quarter.

Puneet Dalmia: I think, as I said, it is hard to forecast prices in our commodity business. And we personally think that in the next 2 quarters, this is an election quarter and the next quarter is a monsoon quarter. So I think it will be hard for us to believe that there will be a significant upswing in prices. Although I think there will be -- everybody will report some margin drop, how much, etcetera, needs to be watched. So it's hard to predict by when and how much prices will rise. And while capacity addition continues, I think the rate of capacity addition is lower than the rate of demand growth. So utilization levels should go up gradually. I think that is what we are seeing.

However, there is excess capacity in the industry, that's a reality. And as long as there is new capacity addition and there is a quest for higher growth, prices could be under pressure. Having said this, we have seen this industry -- it goes through ups and downs in terms of margins. We still believe that there is a structural trend of higher consolidation and there are rising entry barriers. So even if, let's say, margins are under pressure, it may enhance and accelerate consolidation as well.

So I think it's hard to forecast prices on a quarter-on-quarter basis. But all I can say is that we remain convinced about our investment thesis in this sector and driving consolidation is a trend that we continue to see.

We are already seeing 3 transactions, which are in the works. UltraTech is buying Kesoram. Ambuja is buying Sanghi, and our transaction with Jaypee is under process. These 3 are large transactions. There are some small transactions, which were announced recently in terms of grinding units, which were bought by UltraTech and Ambuja. Ambuja bought My Home Cement grinding unit in Tamil Nadu and UltraTech bought the Parli cement unit of India Cement in Maharashtra. So I think the trend for consolidation will continue. And over a medium term, margins should normalize in my view.

Moderator: We'll take the next question from the line of Mohit Jain from Tara Capital Partners.

Mohit Jain: I just wanted to have a view on the expansion plan. You said that the Board is looking into it and maybe in couple of quarters, it will come into effect. Have you said that, is it likely that the 75 million tons target of FY '27 is likely to push back because I think it already has to start soon if we want to achieve that timeline. So how do you look at that, sir?

Puneet Dalmia: I think we will comment on this over the next few quarters. As I said, we are working on it with the management and with the Board, and I think we will share with you whenever we are ready.

Moderator: We'll take the next question from the line of Rahul Gupta from Morgan Stanley.

Rahul Gupta: Sorry to ask similar question like other participants, but in a different way. Puneet, you have been bullish on medium-term India story for some time. And hence, demand for cement will remain strong over medium to longer term, right. But given seasonally next couple of quarters is going to be weak for the industry, what's the risk of demand not improving in second half or getting pushed out to next year? That's it.

Puneet Dalmia: Look, it's hard for me to forecast demand on a quarter-on-quarter basis. But I think if GDP growth continues at 6.5%- 7%, we think that this is a phase of India where it is infrastructure-led growth, and the cement demand is likely to be 1.2, 1.25x GDP growth. So if GDP growth gets hit on account of geopolitical factors, which as of now, it seems that India is reasonably insulated. Other than that, I don't think that the structural demand story is under pressure in any way. But quarter-on-quarter, sometimes things get pushed out. But we've seen that even if there is 1 year of lower demand growth; next year, it catches up. Projects sometimes get pushed on the ground for a few quarters, but they don't get completely abandoned.

So I think it's hard for me to forecast quarter-on-quarter. And I think the structural demand story is quite strong. But if there is any macro global shock, which impact GDP growth, then I think it may impact cement demand as well.

Moderator: The next question is from the line of Navin Sahadeo from ICICI Securities.

Navin Sahadeo: Puneet, just in the previous question comment, you mentioned that there is consolidation on the rise. More recently, there has been a couple of grinding units, especially let's look at, My Home, who sold a Tuticorin unit. While consolidation is definitely a good thing but should not one look at it this way that these promoters look at like prices being vary in these markets for a slightly more prolonged period of time? And hence, they are giving up on these assets rather than keep incurring losses or not really operating these utilized units to the fullest. So is that not an indication of a prolonged price weakness also when these companies are looking at sales of grinding units?

Puneet Dalmia: I think they still have all their assets in these markets. So if it was a decision which was driven by a view of prolonged price pain and structurally lower margins, then they should divest more assets rather than a few assets because all their assets are in these markets only. So I think it is more driven by some maybe need to improve the balance sheet strength as opposed to a long-term view of structural weakness in the market.

Navin Sahadeo: Helpful. Sir, second question was on the non-trade segment,. So is it safe to say that at Dalmia in March quarter, our exposure towards non-trade would have gone up and hence, a slightly more amplified impact on realizations? That's just 1 part of the question.

The second is in the same breadth. At a broader industry level, do you see demand in general tilting or shifting towards non-trade segment and hence, industry as a whole and companies are increasing their exposure towards non-trade where the price gap, I think, has gone up materially?

Dharmender Tuteja: In the last quarter, our non-trade sales have gone down. In fact, the percentage has gone from 63% to 65%. So that means there's a 2% drop in the non-trade sales. Our focus continues to be to build a good brand and also to gain further improvement in the trade share but definitely non-trade being a significant portion of the total market that cannot be neglected. So gradually, we'll keep improving the trade, but also keep using the non-trade segment for utilization of our capacities. And then some of the markets, as you rightly said, the prices have improved. So prices and profitability is similar as we are in the trade segment.

Navin Sahadeo: That's great. Just that at a broader industry level, some color or some thoughts on the exposure to non-trade. I mean, while it's great to know that in a quarter like March, when everybody was focusing on volume, Dalmia did a commendable job of trade going up, in fact, from 63% to 65%. But at the industry level, are you seeing some change that non-trade as a segment is getting more share now?

Dharmender Tuteja: Overall, of course, demand in the urban areas or the RMC sector is leading to a slight increase in the non-trade segment, including the infra spending of the government. However, all the big players, I think they continue to focus on their brand strength and also on the trade segment but there are some other players, which cater to the non-trade segment, so their share in the non-trade may be going up. But overall industry level, yes, the non-trade segment continues to be strong.

Moderator: We'll take the next question from the line of Jashandeep Chadha from Nomura.

Jashandeep Chadha: I would like to understand, given that this quarter, your volume growth from the core assets have been around 11% to 12%. So is South accounting for the majority of the growth? And if yes, how much market share gain you would have in South?

And also for a couple of quarters now, we are seeing that whatever the reduction of the increase in realization has been there, the EBITDA per ton follow that. So there is no question from the cost savings. So is it safe to say that Dalmia has reached its lowest cost? And if not, what is the delta you see for the next coming year? And from here, these cost savings will be coming? This is my first question.

Dharmender Tuteja: we don't give the regional breakup of the market share or the profitability, etcetera. So that I'd not like to comment but we have not reached the lowest level of the cost, what we plan. We are amongst the lowest cost players in the industry, but there's further room to improve the costs in terms of the RE power will continue to increase. The coal mines, which will be starting in the current year, that will bring down our costs. Then, of course, there will be a lot of ROI projects. And logistic cost, we see a lot of room to improve in terms of cost, both in terms of lead distance as well as the right mix of the usage of the rail and road. So sequentially rationally, the cost will continue to drive, and we continue to aim to be the lowest cost producer in the industry.

Jashandeep Chadha: Just a follow-up on this, if you can directionally provide that, was South doing better than East, just a directional thing. And second on cost, I see you have earlier planned to have 130-megawatt of solar, but you ended up at 113 megawatts. So what was the reason for the delay?

And second, what was the lead distance for this quarter because your logistical cost also you're saying has increased. So how much sequentially your lead distance has increased?

Dharmender Tuteja: So lead distance for the current quarter is 289, which is an increase of 2 kilometers from the last quarter. And directionally, we would not like to comment on the regional profitability. And in terms of the RE power, see the delay was when we are noticing the negotiations of this RE power projects, we saw the technological changes are also coming to play, and that was driving the cost down.

So instead of contracting earlier, whether we waited and ultimately whatever orders we have finalized, they're much, much lower compared to what we would have contracted earlier. So maybe there was a saving of about INR0.60 per unit kind of thing had we contracted it 6 months earlier. So currently, we are at around 185-megawatt RE power capacity. We expect that by the end of the FY '25, we'll be touching about 350 or so and again, go up significantly in the FY '26, for which we'll give you our exit capacities in subsequent quarters.

Jashandeep Chadha: And my next question is on Jaypee. So we have seen historically, whenever a company is under NPA and any Asset Reconstruction Company overtake that, normally, that overrides any management decision. So in light of that, how confident you are that the binding agreement that you have signed with the management will stay? And also, even if it stays, you have not -- if I'm not wrong, we have not signed binding agreements for the complete 9.2 million tons. So once NARCL comes in the picture, how confident you are of acquiring complete asset because this will also lure your peers to make bids for the remaining assets?

Dharmender Tuteja: See, lenders assume control of the company when the matter is referred to NCLT, not under the normal transfer of the debt to NARCL because NARCL remains as a lender compared to, let's say, the current set of 35 lenders. So management controls and decision making remains with the company and its Board. So that doesn't change.

And in terms of the binding agreements, the binding agreements already signed for this 5.2 million capacity of Rewa, Churk, Chunar, and Sadwa plus this 2.2 million of BJCL with SAIL JV. And the understanding is clear for the 2 million also that it will be on a 7-year lease. And within that period, we can always buy. And this is, of course, linked to the BJCL. So as and when we get this closure, that can be signed immediately and implemented. That is not stuck for any other reason.

Puneet Dalmia: I just want to add to this that the Jaypee Board and the shareholders have already approved the transaction.

Dharmender Tuteja: There's a binding agreement for that.

Moderator: We'll take the next question from the line of Darshan Mehta from Axis Capital.

Darshan Mehta: Sir, since you mentioned about the prices. We have elections on the corner. And hence, it would be difficult for us to take price increase. But sir, if we see the last general election, I am talking about April to May '19. While the industry volumes were muted, it was able to take fair amount of price increase. So what is it that is different this time?

And my second question is while you said that we are not seeing any price increase in April. Is it for Dalmia or we can say the industry itself has not seen any price increase in April, especially in South and East? Yes, that is it.

Puneet Dalmia: I think the price decline is not just for Dalmia, it is for the whole industry. And as regards whether price increases can happen in the election quarter, the answer is that, yes, it can happen. However, I think given the momentum that we are seeing in April, we feel that the price increases are unlikely to come through this quarter. That's what we feel. But again, who knows, hard to forecast how things will behave.

Moderator: We'll take the next question from the line of Raashi Chopra from Citi Group.

Raashi Chopra: Just on the margins. In the last call, you indicated that the EBITDA per tons for the next year or so should stabilize at about INR1,100 to INR1,200. And given there, what has come through in the fourth quarter and given where prices are, that looks a little bit sort of stretched at this point. And Puneet, you had also indicated that margins should stabilize in a quarter or so in the medium term. So when we are talking about stabilizing and talking about near term, are you suggesting that INR1,100, INR1,200 is no longer the normal and it should likely lower? That's my first question.

Puneet Dalmia: No, I think, as I said, that the -- there has been unprecedented price drop during this quarter. And I think it is for the whole industry. As far as Dalmia is concerned, there were some incremental costs that we incurred this quarter in our quest to gain market share. Some of those costs are going to get corrected. They are one-offs, and they will get corrected over the next few quarters. And some of them will continue because we will invest in marketing and building our brand. But having said that, I think there will be price volatility. And if the prices remain subdued, the margins can then only come from cost control.

So I think our focus will continue to tighten costs further. Our focus will be to invest in our brand and invest in distribution and improve our utilization and gain market share. But as far as the overall pricing environment goes, we will swing with the industry. And I think as our brand gets stronger, as our distribution gets stronger in the new markets that we are entering, I think we should be able to reposition Dalmia in some markets where we are weak in terms of our pricing compared to our competitors. And even if price goes down, part of that can be hedged by improving our brand mix and improving our price positioning in some markets.

Raashi Chopra: Okay. Are you able to quantify the one-off costs in this quarter? As in like what kind of a reversal can we see going forward?

Dharmender Tuteja: Yes., as I said earlier in the call, that this inventory depletion in the current quarter, which was INR137 crores. So this embeds the fixed overheads, which also gets charged off. So when this gets normalized, it's improvement of INR40. And by the second quarter when the inventories get built, it will be saving in the fixed cost portion. Besides that, the increase in the logistic cost, we expect that this is going to be normalized in the next 2 or 3 quarters itself.

And the fixed cost overheads increase in terms of the marketing will continue, we'll continue to spend. And the other expenses, like commission or depot expenses there also, I think we expect some savings will come in the coming quarters. And as we ramp up the Jaypee operations, there also, we should improve.

Rashi Chopra: Got it. So okay. And so the logistics cost quantum would be how much?

Dharmender Tuteja: INR70 increase in the current quarter.

Rashi Chopra: So that's the whole thing you're saying should reverse?...

Dharmender Tuteja: Majority of this.

Rashi Chopra: Okay. The another point was, I think you mentioned that as the marketing spend increase, the idea is essentially to build brand, and that's how the volume push happens and dealer discounts don't really need to be hiked. Or is that the same situation in this quarter, i.e. that the kind of realization pain that you have seen that should be felt by competition as well? Or did you have to kind of increase these discounts to be able to get these volumes?

Dharmender Tuteja: Over the year, we have been able to reduce the discounts marginally, but we see more scope as we spend more on the branding, we see more scope to reduce the discounts.

Puneet Dalmia: And I think overall, the realization of competitors will depend on the market mix and their brand mix and their trade segment, trade and non-trade mix as well. So I think let's see. We are the first ones to declare results. I think over the next 30 days, we should get more visibility on this.

Raashi Chopra: Got it. Just one last housekeeping question. What was your consumption cost of fuel on a per kcal basis?

Dharmender Tuteja: Yes, INR1.45.

Moderator: The next question is from the line of Aman Agrawal from Equirus Securities.

Aman Agrawal: Sir, just wanted to understand on the captive coal mine that you have mentioned in the presentation. So what kind of output are you looking out of this? And maybe what kind of a share -- would this mine be able to meet of our overall coal requirement and the cost that you expect per kcal, maybe if you can share such detail?

Dharmender Tuteja: The specifics, I will not be able to share, but it is the Jharkhand mine, Brinda-Sasai, which we have got. So that will get operationalized in the current year. And the next year, Mandla coal block also will get operationalized. Mandla will not come into operation this year. So this Brinda-Sasai will cater to part of our requirement in the East and will definitely bring down the cost significantly. But exact specifics, I would not like to share right now.

Aman Agrawal: Understood, sir. Understood. And sir, just lastly, if you can -- sorry for the repetition, but if you can share the peak debt numbers and maybe the expected depreciation number that you shared earlier?

Dharmender Tuteja: Yes, please. Depreciation, we expect to be about INR1,350 crores to INR1,400 crores for the coming year. This is without Jaypee assets. And peak debt to be about around INR9,000 crores and net debt around INR5,000 crores or so by end of the year.

Moderator: We'll take the next question from the line of Ashish Jain from Macquarie.

Ashish Jain: I had a couple of basic questions. Like on tolling, when we send the clinker, that is not recorded as a sale in our case. Is that right? Or we are recording both clinker and cement sale as volumes?

Dharmender Tuteja: **No,** Only when cement is purchased by us from Jaypee, it is recorded as a purchase of stock-in-trade. And when it is sold, it is coming in the sales. So movement of clinker from Rewa to Chunar, it is within the Jaypee system. So that is not recognized as purchase volume.

Ashish Jain: Okay. Okay. Got it. Sir, secondly, the freight cost increase that you spoke about quarter-on-quarter, can you give some more color on that? Like was it a factor of regional mix? Or what was the main reason for that?

Dharmender Tuteja: Multiple factors are there, including movement of the clinker, – 2-kilometer increase in the lead distance, some PTPK increases. Many of these things will normalize. Regional mix also is important in this.

Ashish Jain: Okay. Okay. Got it. And lastly, this question is for Puneet. So Puneet, in the last, say, 3, 4 years, we have spoken a lot about growth and a certain long-term number. But in terms of execution, we have clearly been behind the curve. Like we also expected Jaypee to come through much sooner. Now it has seen delays. And September also, I guess, is more a hope at this moment rather than a high conviction timeline. And even on the organic expansion, now like you highlighted earlier in the call that we are revisiting at a board level. So what has really changed? Because we were clearly very aggressive in terms of our long-term volume targets and all. And now there seems to be a lot of 2 steps forward, 1 step backward kind of thing. What has really changed in our thought process? Or is it something else which we should be aware of?

Puneet Dalmia: I think the long-term story is still intact. I think there have been some delays in the Jaypee acquisition, for sure. And I personally also think that I still remain convinced that it is progressing in the right direction. I think no question about the fact that we were quite confident in the last call that the transaction should get consummated before March, but it didn't happen. So there is a procedural delay. And I think whenever you do an acquisition like this, it is -- the company is under stress from -- because it has defaulted. So it sometimes takes longer than you expect. But it is also giving us time to establish ourselves in the region. So there is a lead time that we get to establish distribution, brand and volume in that region.

So I would say that, yes, some of the things don't pan out as you expect, but that's a part of life. And I think, overall, we are quite happy that we have grown to 50 million tons or close to 50 million tons without adding any debt on our balance sheet. I think that's a very impressive achievement in the last 3, 3.5 years. We've doubled our capacity without adding debt on our balance sheet. There has been some up and down with respect to our volume growth and our market share.

But I think we did try some experiments, which didn't work. We have learned very quickly. We have demonstrated our ability to regain market share in 2 quarters itself. And I think the cost is not fully optimized yet, and that's okay. We will optimize costs as we go along in the coming year. And I think we just want to make sure that we think through our next phase of expansion and announce it when we are ready.

And as I said, I remain highly convinced about the fact that there will be more consolidation, entry barriers are rising and demand growth will continue in the sector. In a long-term story, a couple of quarters here, there mix is something that we have to be prepared for and we can adjust for -- but I think overall, in terms of capacity growth, I'm pretty impressed with what we have done in the last 3 years.

Ashish Jain: So if I can just ask one follow-up. Like the reason -- so one thing is when you come back, let's say, 2 or 3 quarters after discussing internally. Will the 75 million ton by 2027 number can change materially. If you can give some thought on that?

Puneet Dalmia: I will let you know once we have discussed it internally, and we will make the announcement when we are ready.

Moderator: Ladies and gentlemen, we will be taking only 2 last questions from the participants now. And the next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: Yes. Sir, continuing the previous question, so that's the reason if we, as you mentioned, even if we decide to take a couple of quarters to decide for 75 MTPA. Let's say, 3 quarters down the line even if you say we want to reach to a 75. Then also, is it possible to reach 75 million tons by FY '27 because then you have only 2 years, 2.2 years, only 2 years and 3 months. So is it possible even if we decide 3 years for this down the line, can we reach 75 million ton by FY '27?

Puneet Dalmia: I think greenfield projects may take 2- 2.5 years. We are seeing it in our Northeast project. It will take probably 2 years and 3 months to commission. So I think commissioning new projects in this time line is not difficult based on our own execution track record and what we are seeing recently. The other thing is that there could be possibilities of inorganic growth also. So that could get done faster. So I think 2- 2.5 years is still a reasonably good time for us to expand.

Shravan Shah: Okay, okay. Second, sir, when we say that we expect 8.5% to 9% kind of a demand growth in FY '25 and we want to grow at 1.5x of the industry growth. So that comes closer to a kind of a 12.75% or 13% versus last quarter, we were saying that for next 6, 7 years, we can look at a 15% to 16% kind of CAGR. So does that mean that in the start of this 15%, 16% CAGR is on the lower side. Your ask rate to achieve this will be higher? Or will this growth of 15% to 16% CAGR for the next 6, 7 years can lower to 12%, 13%?

Puneet Dalmia: I think we said we can do 12%, 13% without Jaypee assets, and Jaypee assets can add another 4%, 5% to our growth. So I think that 15%, 16% CAGR, including Jaypee, will continue.

Shravan Shah: Okay. Second is in terms of the capex. Is it possible, any broad idea, though. I know we haven't finalized to reach to 75 MTPA. But for FY '26, what number one can look at in terms of the capex?

Puneet Dalmia: I think we have already commented on it on both the Jaypee transaction and the fact that we are going to announce our 75 million whenever we are ready for the next phase of expansion. So I think there's nothing more to share at this moment.

Shravan Shah: Okay. And on the employee cost, this quarter, it has come down from the last Q3 from INR221 crores to INR202 crores. So is there any one-off? Or is this sustainable? Or when can we see normal increment for the employees? And how one can look at the quarterly employee cost from the Q1 FY '25 onwards?

Dharmender Tuteja: See, Mr. Singhi earlier was on the roles of the company, and he moved as a strategic adviser. So his cost has, under the new agreement, has moved to other expenses from the employee cost. So that is one significant change.

Moderator: The next question is from the line of Jyoti Gupta from Nirmal Bang.

Jyoti Gupta: Good morning sir, So my channel check suggest that the prices have been dropped specifically in the South and East, and the drop has come from you and the peers. And of course, that is basically to maintain market share. And as you said, in a subtle way to maintain market share, the prices may not improve. So because the companies are increasing their capacity, they have to show a minimum utilization, 70%, which means will the prices continue to take that beating just to maintain market share?

And second is, I see that the raw material costs for all, for the last 3, 4 quarters have not improved. It continues to be at the same level or higher. And if that is so the case, then your EBITDA per ton for the next 3 quarters are not going to improve. I just want to understand your point of view on that.

Puneet Dalmia: I think on the price side, I would say that we have not led the price drop. And I think there is unprecedented drop in the last quarter, which we are not a significant player in each of these markets. And like, for example, even in Andhra Pradesh, etcetera, we are not a very significant player, but it witnessed a significant price drop. In Chhattisgarh, we are not a significant player. It witnessed a very significant price drop, too. So I think it is not about Dalmia leading the price drop. Also, we can say in the Central region, where we are ramping up Jaypee volumes, we are a very small player in that region. Even that region had price drops.

So I think this is not about Dalmia's quest to increase market share and consequently causing prices to drop in the market. I think there is a general tendency what I believe that whenever new capacities get commissioned, there is some turbulence in the market. And even though utilizations are gradually likely to improve, if demand growth grows at 9% and supply growth is at 6% to 7%, I think when new capacity comes in, there's some turbulence in the market.

The question for me is that over the long term, how is the industry structure going to look like? Over the long term, what are the structural demand drivers? And who are the people who are investing in this sector? So I think the encouraging trend that I see is that the incumbents who have the maximum exposure in this sector are investing more in this sector. So I think that's a clear indication for me that they see a long-term promise and they see high returns. Otherwise, they would not be spending so much money.

Now the question is that, will that return come in a few quarters? Will that return come in a few years? Or you have to be patient for 3 to 5 years to get those returns? I think that is the answer. Nobody knows what the answer is. But we truly believe we have seen sector after sector after sector, whether you see steel or banking or telecom, as consolidation happens, industry structure becomes more attractive and margins improve. And people who have built scale before that consolidation get a disproportionate rewards.

So I think this journey requires some patience. This journey requires a slightly more longer-term view as opposed to a quarter-on-quarter view. And I think you have to keep your head to the ground when prices are low and you have to not fly higher when prices are high. You have to just remain grounded. You have to remain focused on execution. And I think if you're focused and disciplined on execution, ultimately, you will get margins and good returns in this sector. At least that's our conviction.

Let us see how it plays out. Nobody knows the future, but we are investing based on this thesis. We are betting on India. We are betting on an improving industry structure. We are betting on an industry where incumbents are investing more, and that makes us believe that our conviction is not shaken by just a few quarters of weak profitability or volatility in prices or costs.

Moderator: Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to Mr. Puneet Dalmia for closing comments. Over to you, sir.

Puneet Dalmia: Thank you very much. I greatly appreciate your interest in us. And again, as I said, this was a quarter with good volumes, but we also had severe price drops and higher costs. I think our cost structure should improve as we go forward. And we look forward to interacting with you more in the coming quarters. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Dalmia Bharat Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.