"Grasim Industry Limited Earnings Conference Call"

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Moderator: Ladies and gentlemen, good afternoon, and welcome to the Grasim Industry Q2 FY'12 Earnings Conference Call hosted by Enam Securities Private Limited. As a reminder for the duration of this conference all participants line are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today our members of the senior management team at Grasim Industries. At this time I would like to hand the conference over to Mr. Jagdishwar Toppo from Enam Securities Private Limited. Thank you and over to you Sir.

Jagdishwar Toppo: Thank you Lavina. Welcome everyone to Grasim Industries Q2 FY'12 Earnings Call. We have with us Mr. Adesh Gupta, Whole-Time Director and CFO, Mr. K K Maheshwari, Whole-Time Director and Business Head of the VSF Division, Mr. Pavan Jain, Senior Executive President and Mr. Sharad Agarwal, GM Finance. From UltraTech we have Mr. K. C. Birla, CFO and Mr. Jagdish Bajaj, Executive President Finance. Without much delay I handover the floor to Mr. Adesh Gupta for his opening remarks thank you, sir over to you.

Adesh Gupta: Thank you Jagdishwar, Welcome and good morning everyone. We have announced our quarterly results on October 22, and the presentation has been mailed to most of you; hence I will limit myself to key highlights of the businesses.

Both VSF and cement businesses have recorded better performance over last year. In the VSF business the markets are stabilizing after volatility witnessed in Q1. Globally VSF prices staged a marginal recovery in Q2 with improvement in sentiments. The demand for VSF picked up due to improved consumption and restoration of the depleted inventory in the value chain resulting into 17% higher volumes year-on-year basis. This year Nagda plant has operated fully in Q2 with early onset of monsoon. It was close for 25 days in corresponding quarter. This has led to growth in production by 20% to 83516 tonnes. The standalone revenue grew by 26% aided by higher volumes and realization. However operating margins were impacted due to 21% increase in input cost. There was increase in prices of all the major inputs - pulp, caustic soda, sulphur, and coal. On a Standalone basis VSF PBIDT increased by 13% to Rs.310 Crores supported by higher volumes. Pulp unit performance was impacted due to higher energy cost and scheduled maintenance shut down in AV Nackawic and Domsjo, nominal losses on restatement of forex borrowing and long-term cover of hedge forward sales at Domsjo; half of which has already been recouped by now. The consolidated PBIDT was 5% at Rs.334 Crores.

In the Chemical Business PBIDT was 44% aided by higher volumes as well as higher ECU realizations.

In the cement business demand witnessed moderate improvement after setback in Q1 but were still below normal growth. On YOY basis it grew by 7%. Our cement sales grew by 9% with additional volume of extra cement. Revenue increased by 28%, led by improved RMC and White cement performance, acquisition of the Star Cement and improved realizations in grey cement from unrealistic level low level last year. Variable manufacturing cost increased by 14% year-on-year due to substantial increase in energy cost. PBIDT at Rs.691 Crores recorded 45% increase over low base last year.

Now let me move on this financial performance. The consolidated revenues were up by 28% at Rs.5774 Crores with higher revenues in all the businesses. Consolidated PBIDT in line also grew by 28% to Rs.1135 Crores. Interest expenses were marginally lower due to repayment of loans. Consolidated net profit increased by 29% from Rs.323 Crores to Rs.418 Crores. On a Standalone basis net profit were higher by 23% from Rs.280 Crores to Rs.345 Crores. Half year performance was equally good as consolidated PAT rose by 30% from Rs.898 Crores to 1168 Crores.

As far as CapEx is concerned, expansion projects in VSF and Cement are progressing as per schedule. As informed earlier the total CapEx outlay including subsidiaries is Rs.14400 Crores of which Rs.3400 Crores is under implementation in standalone company and Rs.11000 Crores in Cement business. CapEx outflow for this year is expected at around Rs.6400 Crores of which Rs.1550 Crores has been spent during the first half.

Finally, to summarize both VSF and Cement businesses have performed well during the quarter. However the environment in both businesses continues to remain challenging. In VSF the demand is expected to be volatile due to macroeconomic conditions and the uncertainties in Euro Zone. In cement the surplus capacity should subside gradually over a period of two three years with expected growth in demand. At the same time if the present pricing input cost scenario continues it will result in margin pressure.

As the present scenario improves gradually, Grasim will extend benefit through its backward integration and cost leadership in VSF business and brand image, distribution network and operating efficiencies in its cement business. Capacity expansion under implementation in these businesses will enable the company to grow at a rapid pace and consolidate the leadership even further.

Finally on the occasion of Diwali I on behalf of Grasim Team we wish you all happy Diwali and New Year. Now we are ready to answer your questions. Thank you.

Moderator: Sure Sir. We will now begin the question and answer session. Our first question is from the line of Pritam Lala from Batiliwala and Karani Securities. Please go ahead.

Pritam Lala: Good morning. My question pertains to the current scenario in cement what I have been hearing from market participants, dealers over the county that prices have gone up pretty sharply in the last 20 to 25 days or one month at all regions except the South, but I hear that is largely because of supply cut than any anticipating pickup in demand. I mean demand should have picked up during this Diwali season, but it has not really picked up as expected and essentially we do a supply cut in some cases because of shortage of coal in certain other cases due to deliberate supply cuts which has sort of facilitated the increase in prices. Now the inference is that if demand does not really pickup very soon then these prices will have to dip. What is your overall sense of this entire scenario sir?

Adesh Gupta: We do not think that there is any supply cut that is prevailing. You have seen in the past also that always in the month of October onwards after the monsoon, prices rise. We believe this is reflection of the same. We also believe that now even at the government level things have started moving and probably some result is out of that.

Pritam Lala: So roughly what is your sense of these demand growth for the second half I mean what sort of demand growth in cement coming year?

Adesh Gupta: Second half we are considering the growth of about 7% to 8%.

Pritam Lala: Thank you very much.

Moderator: Our next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Good morning my question is to Mr. K K Maheshwari on the VSF front. Primarily what is the pricing trend we are seeing on VSF currently and how is a demand shaping at the ground level?

K K Maheshwari: You know when we entered the Q2, there was very distinct weak tone to the market largely due to the uncertainties prevailing in the western world and the credit contraction in China. Therefore you found that suddenly the downstream value chain has become hesitant in terms of buying the products though the overall retail sales numbers from all the countries including the western world and China held up pretty well. That resulted in a bit of slowdown in sales in the month of July but then as we entered September, people were covering up for all the supply chain having dried up and therefore in September we in fact had highest ever sales not only in our business in India but globally. That sort of reflected a very sharp pullback in demand and also corresponding increase in prices. Now what we are finding is that there is a demand but people are hesitant largely due to the wide fluctuations that are taking place globally. For example Turkey is a major market which witnessed its currency plunging by about 10% in matter of week. Those type of things are moving to put some uncertainties, but again fundamentally while there are lots of imponderable that the world is going through at this stage, the ups and downs around what is happening in EU, what would happen in US and also the arrival of cotton crop which is definitely expected to be good this year. So all of those would have their own impact on how the world shapes up, but fundamentally we believe that there is going to be a limit on the amount of cotton that can come over a longer-term and therefore the demand for cellulose should continue to holdup. So the shorter-term we would continue to see ups and downs. And then the other factor which needs to be plugged in also into the whole calculation is that the cost of growing cotton is not going cheaper and if you again look at the currencies of the major manufacturing countries, I do not think that the historical cotton prices would lead towards a sustained growth in cotton production. Because eventually cotton farmers, if we look at last year's price they would be sitting on tonnes of money and if you look at current prices it would be a sort of a very normal sort of a return they will get. I think going through on the lot of these imponderables which does put some short-term uncertainties which has to be made up by driving efficiency improvement in the organization and being very aggressive on your marketing front which we are committed to do but going forward we do believe that the long-term story of the viscose continuing to grow steadily should come true.

Jinesh Gandhi: Lastly, how would be the current prices for VSF, a ballpark?

K K Maheshwari: You know the prices are steady at around September levels.

Jinesh Gandhi: Okay and what those levels would be?

K K Maheshwari: They were at like, if you talk globally about it will be $2.55 cents plus or minus few cents here or there because of fluctuating exchange rate everyday. You would appreciate that exchange rate has moved by 5% since beginning of September till now.

Jinesh Gandhi: How would be local prices?

K K Maheshwari: I think the local prices would continue to hold steady. Average realization was 130/ kg. so we believe that we should be able to hold steady. But like we shared with you that there are lots of imponderables that need to be factored in, we do believe that the market should whole steady but we have shared with you that the shorter-term things are getting exacerbated because of the sharp reaction from the value chain which we are seeing and we do not think it is a reflection of destroyed demand because the retail sales are holding up.

Jinesh Gandhi: But, we are not seeing any benefits of weak rupee in local prices?

K K Maheshwari: That of course would have a beneficial impact in the sense that obviously based on dollar based pricing there would be a potential to push up the prices. But those are decisions which we evaluate on a month-to-month basis. So we will have to really get closer to that time, because one week is becoming a long time we do not know what Europeans are going to come out of their hat when we reassemble after Diwali. So all of us will have to be very alert at this time and be focused on efficiencies across our operations rather than taking a bet on what is going to happen on this EU conference over the next two days.

Jinesh Gandhi: Right, understood and my last question is on cement can you share some details of Star Cement operational details with respect to how were volumes and realizations and EBIDTA?

K C Birla: Yes, in Star Cement in the UAE again there is the degrowth sort of scenario. The industry has grown at 46% in particular UAE market but our growth is 93% for Star Cement. Similarly our market share has improved from 12.8% to 14.9%. We started additionally exporting to Iraq and Oman and we started production of SRC Cement. So plant efficiency wise, production efficiency wise, power and fuel efficiency wise we are above the industry. The concern is the market prices because of lower demand and degrowth in the market.

Jinesh Gandhi: Okay and how are the realizations and EBIDTA?

K C Birla: EBIDTA level we are at break-even point.

Jinesh Gandhi: But realization continues to be under pressure?

K C Birla: Yes, around $53 is current realization.

Jinesh Gandhi: Okay, got it. Great sir thanks and all the best.

Moderator: Our next question is from the line of Reena Verma from Merrill Lynch. Please go ahead.

Reena Verma: Yes, thank you very much for the call. I have a few questions starting with Mr. K K Maheshwari on the VSF business?

Adesh Gupta: Limit initially to two questions so that others can get a chance?

Reena Verma: Sure, on the VSF business can you please just walk us through where we are in terms of premium versus cotton prices right now and therefore do you think that premium is sustainable or not with reference to VSF history. Related to that I just have a small question is that in terms of the daily run rate in October that you are seeing on volumes is that holding up compared to 2Q?

K K Maheshwari: Your first question was on historical delta versus cotton. Now typically VSF used to sell at a higher price compared to even clean cotton, so you have got to add 20% to 25% wastage that takes place, around 22% is the average wastage which takes place and you are looking at the cotton prices now versus if you were to compare with the VSF because the wastages in cotton are much higher. And traditionally based on that it used to sell at a premium on that of about 30 cents - 40 cents. Now what is happened is that if you look at today's prices of cotton again, now we are in situation were today's spot prices of cotton are about 10% to 12% higher than the forward prices. So again I do not know if you want me to take the base of today's prices then actually we are in the reverse situation. That means on a spot cotton if someone to buy and have a clean cotton them essentially it is getting VSF on discount. But if you were to look at forward prices then maybe that discount is not there. So therefore we do believe that you look at the historical trend then either cotton prices have got to fall much more or viscose prices have the room to go up. So I do not know if I answered your question but that is pertaining to your very specific query with respect to cotton and the delta versus cotton.

Reena Verma: Yes, Mr. Maheshwari thank you very much and I just want to just be so that you and me on the same page on cotton you know when I look at the cotlook index it looks to have fallen very, very sharply from August levels which are there in your presentation so you know as per our data your local VSF prices I am talking about local prices are at substantial premium to cotton perhaps all time high can you confirm that?

K K Maheshwari: No, that is incorrect madam. In August cot look index was 116 in the first week of August and it is now it is about 109 which is reflective that spot prices have come off by 7% and as you take 116 and this is in pounds madam, you got to multiply it by 2.2 and then you have got to add another 40 cent for its premium, then you will find that the pricing would read something like cotton pricing of cent 270, cent 280 versus that the VSF prices are at much lower level today. So therefore I do not think that we are talking on the same thing. Maybe if you are referring to the future, then the future also in August for it about 104.5 in first week of August which are now down to now about 97 for December 2011 delivery. So even that is down by 7% - 8% but again if you will have to understand the fact that the cotton had gone through a very unrealistic phase when starting out from 70 cents going up to $2.3 to $2.4 per pound was most unrealistic scenarios which we witnessed last year. So all these things have to be normalized if you look at the numbers and the numbers I just shared with you show that even if let us say it you have to take $1 and $2.30 would be the base price per kg and you add another 22% wastage so we are talking about $2.60 - $2.65 and then you add the premium you are talking about $3. So compared to cotton definitely the premium which was there for Viscose, if that were to hold true today there would scope for VSF prices to go up or for cotton prices to fall. So we believe somewhere in between the stabilization has got to take place because of the huge increase in input cost all around. Now remember cotton you need to put in lot of water which consumes energy. I think lots of people forget that water is not for free even if it is given by Government for use for free. It is still not free as you got to pump it into your fields. But the energy cost are there unless government decides to subsidize it, you got to put fertilizers, you got to put pesticides, you got to have your all the agricultural machines and equipment. If you factor in all of those costs, historical price was 0.70 cents. I do not think it is the realistic price on which to base the assumption. I think all these prices will have to adjust to a slightly higher price specially pertaining to agri commodity.

Reena Verma: Sir, thank you for that. Just for that minor followup on volumes how are your October volumes?

K K Maheshwari: Obviously like I have explained to you that October was pullback sharp pullback on the contraction which we had seen going into Q2 . Also I was sort of trying to give you a perspective that when there is very sharp pullback like withdrawal by the customers, they are also coming back also with the same vehemence to cover up for there lost quantity. But now we believe we are back into the normal steady phase of VSF and we believe that we should be able to sell all that we produce at reasonable prices.

Reena Verma: Thank you. Can I ask my second question on cement? I just wanted to know in the presentation you have mentioned six million tonnes added in Q2 in terms of capacity. Can you please be more specific in terms of which capacities came on board as per you and what is your capacity addition out look for fiscal 12 please?

K C Birla: In Q2 6 million tonne capacity addition is there, 4.1 million is for Jaiprakash and 1.5 million is for Chettinad Cement.

Reena Verma: Thank you and therefore for the full year what capacity addition are you looking at?

K C Birla: It is around 17 million tonne new capacities will be added.

Reena Verma: Thank you very much.

Moderator: Our next question is from the line of Naveen Sachdev from Edelweiss. Please go ahead.

Naveen Sachdev: Yes, sir my question was on your overseas acquisition Domsjo. Can you throw some numbers to what was the EBIDTA for the quarter? Last quarter if I am not wrong Domsjo did a total profit of Rs.173 Crores? Has Domsjo made a loss at the EBIDTA level is what I wish to ask?

K K Maheshwari: I will tell you the performance of Domsjo on an operational basis has been extremely good in line with what we anticipated. Of course Q1 as you know pulp prices were at their highest level. So in line with that it was expected that the profits were absolutely on the higher side. And going into Q2 as you will realize that summer is the time when they do their maintenance shutdown. So there was a plant maintenance shutdown in September at Domsjo which lead to slightly lower production which was in line with the plan. And also during this period we have carried out certain activities which would help us expand the capacity of plant from 210000 tonnes to 255000 tonnes which we expect to commission by middle of next year. So the exact numbers I just asked Adesh, but on the operational level there was a gain and then we had taken some forward covers which we were required to do mark-to-market. Because you must have seen that the European currency has strengthened suddenly very strongly towards the end of September. So that resulted in a slight mark-to-market at that point of time but if you have to see the currency rate of this morning, all of that loss would have been converted into a gain because now the exchange rate are dramatically in favor of dollar.

Adesh Gupta: See in Q1 we have got a EBIDTA for the business as a whole for about Rs.184 Crores against which in the current quarter on operational basis we earned about Rs.150 Crores against which the two provisions , one for loss of foreign exchange and second on maintenance of about Rs.30 Crores and about Rs.90 Crores of the exchange losses. These are mark-to-market nominal loss and as Mr. Maheshwari has already explained the half of that which has already been covered because if you remember that dollar has witnessed unprecedented 10% rise.

Naveen Sachdev: Sure Sir, if I am getting correctly I mean last quarter EBIDTA was Rs.184 Crores but the reported profit for Domsjo was Rs.173 Crores and for this quarter the profit would be or it would be a loss?

Sharad Agarwal: No, last quarter the reported profit was around Rs.66 Crores, what you are referring is operating EBIDTA of 175.

Naveen Sachdev: So that was the EBIDTA?

Adesh Gupta: EBIDTA was for the business as a whole actually and we report only one-third numbers of that we reported 66 Crores proportionately.

Naveen Sachdev: So total reported PAT for the company as a whole was how much Sir?

Naveen Sachdev: In the meantime, if you could just give us the volume outlook for the VSF I mean first half we are nearly flat year-on-year so do we expect flat volume?

Adesh Gupta: We are operating now at a full capacity and Q3 and Q4 also we operated at a full capacity, therefore we do not think there will be a substantial change in the volumes.

Naveen Sachdev: Right Sir and also on the cost front I believe since like the outlook is a bit volatile and negative have your pulp contracted prices also been revised down?

K K Maheshwari: We have long-term contracts on the pulp prices and right now what we have seen is a softening of the formula on which our long-term prices are based as well as the market prices compared to in the Q1 of this year. So we do expect some softening of the input prices pertaining to pulp whereas the item like caustic and sulphur continue to be pretty strong.

Naveen Sachdev: In the cement business if I could just ask one question what are margin typically EBIDTA margins do we make in the white cement business.

Adesh Gupta: Around 30%.

Naveen Sachdev: 30 and it is more or less of 30 stable kind of scenario there?

K C Birla: Yes, white cement is a stable scenario.

Naveen Sachdev: 30% when we say it is including I mean the entire white segment?

Sharad Agarwal: Including Putty

Adesh Gupta: Coming back to Domsjo actually in Q1 the profit was 116 Crores on net basis and against that Rs.90 Crores have been provided for an exchange fluctuation and about 20-30 Crores will be on maintenance so more or less the profits are same, In books Domsjo we have shown a loss of 26 Crores.

Naveen Sachdev: Thank you very much.

Moderator: Our next question is from the line of Mitakshi Ashar from JM Financial. Please go ahead.

Mitakshi Ashar: Sir at about Rs.128, Rs.130 per Kg VSF prices what is the competitive scenario over the Chinese producers?

K K Maheshwari: We are very competitive with them. In fact if someone were to import he would effectively have to pay a higher price than what price at which he is getting it from us. It is a good balance we keep between making sure our customers are competitive in the international market and because that is important also to make sure that they have healthy position and able to compete in the market effectively.

Mitakshi Ashar: But with increased cost structure if Chinese players will be able to compete at this price, because I believe then prices will have to go up for VSF?

K K Maheshwari: If you were to just do a pseudo costing then you are absolutely right that if they were to buy pulp at the prices which are being quoted today and caustic and sulphur at international prices and also have to pay for capital even at rate of interest which the Bank of China is saying, then most of them would not be making money and incidentally that is getting collaborated also by the fact that if you look at the balance sheet of most of the Chinese manufactures of VSF, they never made good money even in the earlier years when we were having relatively good times. So yes their balance sheet do reflect clearly high level of stress and if you ask me how they still continue that is a question which I think nobody in the world has been able to answer so far.

Adesh Gupta: To add further actually the integration level in China is not as high as we have.

Mitakshi Ashar: Sure, I agree. My second question on CapEx plans as per the current PPT you are expected to spend Rs.63.9 billion across Cement and VSF business? Out of which in the first half you have spent just Rs.15.5 billion. How confident are you that you will able to complete the full CapEx and also last time there was quite a slippage?

Adesh Gupta: Most of the money is going for expansion and the expansion work has picked up. Now delivery has started coming. So we are fairly confident that CapEx should be around what we have forecasted in this presentation.

K C Birla: Important is all CapEx is committed in the cement and now the delivery is due so now you will find in the second half more CapEx spending will be there. So far project is concerned, it is fully committed and going as per schedule.

Adesh Gupta : You will also agree that in Q2 normally civil construction etc., is at lower pace. That also picks up and we are going ahead with civil construction in Q3 and Q4.

Mitakshi Ashar: Thank you. Best of luck.

Adesh Gupta: After all actually we have to also commission both the projects on time.

Mitakshi Ashar: Thank you, Sir.

Moderator: Our next question is from the line of Rishab Botra from B&K Securities. Please go ahead.

Rishab Botra: Good morning and Congratulations on good set of numbers. I have two three queries, firstly if you could let me know our depreciation on YOY basis have declined at roughly 20% to 28% so, is this on account of changing policy because I do not think we have reduced our gross block any ways?

Adesh Gupta: No, in case of Standalone Company actually we used to have an aircraft which has been disposed off.

Rishab Botra: Another thing other income has witnessed a sharp increase what are the major components is it interim dividend from Ultra Tech or forex gain?

Adesh Gupta: No, basically about Rs.30 Crores is on account of this dividend, secondly even on mutual fund the yields have gone up so therefore to some extent there also we are getting benefit.

Rishab Botra: Another thing, if you could let me know our freight and power costs have risen significantly not in proportion with the production increase, so what has lead to such increase, raw material I can understand because of the pricing input costs but for freight and power if you could throw some light disproportionate to in respect to production increase?

Adesh Gupta: The energy cost have gone up both coal as well as the fuel cost.

Rishab Botra: That would have resulted in your freight cost increases as well. Thanks a lot if I have any queries I will come back.

Moderator: Our next question is from the line of Sandeep Bansal from UBS. Please go ahead.

Sandeep Bansal: Good morning sir. Thanks a lot for taking my question. I had two questions firstly if you can give us a sense on energy costs. Do you think that they stabilized? What is the current cost of coal and are you seeing any curtailment or likely curtailment from Coal India in terms of supplies?

K C Birla: During this quarter ….if you know last time in March the domestic coal prices increased by Coal India from 30% to 150%, impact of increase in prices by government has been felt during this quarter, secondly the imported coal which we use around 35% to 40% where the prices were $110 per tone, has gone up to $138 per tonne during this quarter. Therefore the imported coal prices have also gone up by 25% and as a result of these the overall energy cost has grown by 22%. I think current prices are stabilizing at September level. There is a softening of $2 to $3 on imported coal price. But nevertheless we will have some impact on account of Telangana issue where there was a strike and therefore we have to purchase coal from the open market.

Sandeep Bansal: But, are you seeing any other curtailment of supplies from Coal India because of let us say diversion of coal to the power sector from the E-auction segment, do you expect any such curtailment?

K C Birla: I think the issue is particularly for Southern based power plant where Singareni strike is just now over, so it is the priority for government to supply the coal to power plant. So to that extent till the power plant gets the coal till then there will be little bit shortage, so in times to come gradually it will ramp up but there is no additional curtailment at present.

Sandeep Bansal: Thank you sir. My other question was on in demand growth you are expecting around 7% to 8% demand growth in second half of the year, could you help us identify which would be the higher pockets of growth because we expect that south remains a bit weak because of Telangana issues, so, which are the regions which you could expect to grow may be it may be 8% to 10%?

K C Birla: If you see the 25% demand comes from South and Andhra there was the negative growth of 13%, Kerala there was a negative growth of 4% and similarly Tamil Nadu there is a negative growth of 1%. I think these states are improving now and in additional to these post monsoon there is always a tendency that there is boom in the construction sector. So I think overall the demand should improve from H2 onwards. Practically if you see more demand we are expecting from rural side.

Sandeep Bansal: Thank you Sir, and all the very best.

Moderator: Our next question is from the line of Nikhil Deshpande from PINC Research. Please go ahead.

Nikhil Deshpande: Thanks for taking my question. Just I wanted to know on Ultra Tech side there has been significant cost pressure on raw material and other expenditure, could you just elaborate on it?

K. C. Birla: Practically in the June there was an increase in diesel prices by the government and you know that diesel impacts the transportation cost for, in coming material port, for outgoing material, for mining operation and for all the activity. Therefore the major increase in the input cost practically raw material is on account of transportation and because of 25% increase in coal prices therefore additional impact in the energy cost.

Nikhil Deshpande: What is the linkage coal for the quarter percentage wise?

K. C. Birla: That is 33%.

Nikhil Deshpande: Now would the situation improve in Q3?

K. C. Birla: I think our coal mix is likely to remain the same.

Nikhil Deshpande: That is all from me. Thank you.

Moderator: Our next question is from the line of Kamalesh Jain from Prabhu Das Lilladher. Please go ahead.

Kamalesh Jain: Thank you. My question has been answered. Thank you very much.

Moderator: Our next question is from the line of Salil Desai from IDFC Securities. Please go ahead.

Salil Desai: Sir, I wanted to check on VSF inventory that we as a company would have. The last quarter you indicated about 15000 tonnes of quarter end inventory and this quarter my calculation show we would have added another 5000 tonnes to the inventory, is that right?

Adesh Gupta: Yes.

Salil Desai: So, is this deliberate build up or because industry is destocking, are we seeing any inventory build up at our side specifically or is there any?

Adesh Gupta: As Mr. Maheshwari has explained back in the July month there was a substantial pressure on the sales. In July the sales was very low but in August it improved and in September we have far exceeded and it was record sales.

Salil Desai: So, this will get wound down over the next couple of quarters is what you are telling?

Adesh Gupta: Yes.

Salil Desai: Sir second is in cement expansion capacity any views on how much linkage coal will we get or what is our strategy on coal procurement there?

K.C. Birla: We applied for linkage but chances of getting new linkage are very remote. Actually during this quarter also we have switched over from imported coal to pet coke which is cheaper, as compared to imported coal. So I think linkage coal percentage of 33% or 35% is likely to be same. Rest of things might be we have to depend on pet coke or the imported coal.

Talil Desai: Just to clarify even on an expanded capacity as accompany as a whole you will still be able to have 33% to 35% as linkage coal?

K.C. Birla: Yes, linkage coal 33% and in addition to this we are progressing on the coal block which is allocated to us by the Coal India and there is a likely chance that E-auction government will come with the additional coal proposal.

Salil Desai: Thank you very much and a very happy Diwali to your team also.

Moderator: Our next question is from the line of Pranav Gokle from Religare Asset Management. Please go ahead.

Pranav Gokle: Just a sort of a recheck on the raw material cost when it comes to the cement, Sir if I get it right, this raw material cost per tonne in the cement division has gone up about Rs.500 odd to Rs.700-odd a tonne. So you are saying diesel is such an important portion of that increase?

K.C. Birla: Raw material cost has gone up by 4% only during this quarter. It was 341 and now during this quarter it is around Rs.355 per tonne. So the increase is just 4%, which is Rs.14 to Rs.15 per tonne. Definitely yes, Diesel has impacted because of incoming transportation and the mining operation also.

Jagdish Bajaj: Actually what you are doing is you are mixing the raw material cost with increase decrease in inventory. If you do that then in this quarter we have liquidated the inventory of clinker and cement. So you have to reduce that and then you will find the numbers which Mr. Birla quoted just now that there is an increase of only 4%.

Pranav Gokle: So this has to do more with liquation out of the inventory out of the system?

Jagdish Bajaj: Absolutely.

Pranav Gokle: Thank you Sir.

Moderator: Our next question is from the line of Naveen Sachdev from Edelweiss. Please go ahead.

Naveen Sachdev: Sir, just a followup question and basically just to rephrase for the merged cement entity what is the coal mix at this point in time. You said linkage was 33% in Q2, so what is the coal mix for the merged entities if I could just get that rephrased?

K C Birla: Around 38% is domestic coal, 38% imported coal, and rest is Petcoke and other fuel.

Naveen Sachdev: So the 38% domestic is linkage plus e-auction?

K C Birla: Around 32% is linkage coal and 6% is open market purchase.

Naveen Sachdev: My second question was on VSF front, means the expansions I believe that as per presentations are going to get completed towards the end of FY'13, so in FY'14 for that 156000 capacity what sort of utilization do you foresee?

K K Maheshawari: We believe we should be able to have good capacity utilization largely because of the fact that the major part of our expansion is geared towards the specialty products. Like Vilayat out of 125000 tonnes that we will make, most of it almost about 75% of it is going to be specialty products like modal, micromodal and dyed fiber. So we believe it should help us to get good capacity utilization. Obviously you know there is initial period when we have to market the product and we are presently making modal and micromodal in some of our overseas units. So to that extent our product is accepted in the market and we have perfected the technology and all aspects related to its downstream processing. In dyed fiber we are the world leaders. So yes, we might have some initial period where we have to do some aggressive marketing, but we believe we should have good capacity utilization. As far as Harihar capacity expansion of 35000 tonnes is concerned, I think the growth in Indian market should itself take care of the additional volume of 35000 tonnes.

Naveen Sachdev: Sir, are you saying that Harihar expansion is largely to take care of this domestic growth and the other one Vilayat 120K is for exports?

K K Maheshawari: I did not say that, I said that in Harihar we are going to make the commodity product which we believe should be very well taken care of by the growth in the VSF markets in India itself. As far as our product output of Vilayat is concerned, yes it would be a blend of domestic market and export markets and there of course the global markets have a good demand for these products and we are already present in the global markets . So that would be a good blend of both domestic and export market.

Naveen Sachdev: So essentially what it means is that there is a ready market for these super specialty fibers that you are saying, which is currently uncatered at this point of time and as and when we ramp up our capacity or when we expand we can cater to these?

K K Maheshawari: Of course you have to always market the product because when you come up with significant extra capacity then each of the downstream process has to adjust its process parameters to run a product, but I can tell you that globally we are marketing these products for quite some time now. Therefore we have the wherewithal and knowledge to be able to make sure that the product runs well in the downstream consuming industry and that gives us confidence that we should be able to have a good capacity utilization in all these expansions.

Naveen Sachdev: So it is safe to assume 60% to 70% in first year?

K K Maheshawari: I would not want to bet my house on it, but we will try to do better than that.

Naveen Sachdev: Great Sir. Thank you, so much.

Moderator: Our next question is from the line of Rishab Botra from B&K Securities. Please go ahead.

Rishab Botra: Sir, I would like to know that on this expansion, which we are undertaking what kind of proportion would be debt funded or would we be liquidating our mutual funds?

Adesh Gupta: We are eligible for textile upgradation fund and to that extent which may be 600 to 700 Crores we may be taking borrowings.

Rishab Botra: So the investment would be more or less remain the same?

Adesh Gupta: The rest would largely be funded out of the internal accrual itself. We are generating continuous internal accruals, so therefore on the net basis probably it may remain same.

Rishab Botra: Another question was a strategic question there were rumors in the market that the Century Cement Business would be undertaken by UltraTech; how true is it and in case if it is taken up what kind of pricing are we looking to pay?

Adesh Gupta: I think we have clarified this n number of times that Century belongs to B.K. Birla Group and till the two groups merge or Mr. Birla inherit, there is no question of any these kind of thing.

Rishab Botra: This expansion in textile VSF would come in FY'13 and only? That is operational in FY'14?

K K Maheshwari: Absolutely.

Rishab Botra: Thanks a lot Sir. Wish you Happy Diwali.

Moderator: Thank you. Our last question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: My question is on you have indicated that in this quarter we shifted from imported coal to pet coke. First is how is the economics there in terms of what kind of savings do we expect on that account and whether it is reliable for a longer-term basis?

K. C. Birla: We have shifted in this quarter by 10% of imported coal from 51 to 41 and we have started using more of pet cokes from 15% to 29%. You know if I adjust the calorific value terms it is cheaper.

Jinesh Gandhi: But I believe there is higher residue as well of sulphur and pet cokes so would it be right to assume that it could be used only in kiln or will you be also using it in power plants?

Jagdish Bajaj: You know we are using in kiln, but at some plant we are also using in the power plant also.

Jinesh Gandhi: So what kind of savings do we see or how much it is cheaper on per cal basis?

Jagdish Bajaj: Rs.250 Mn. KCL.

Jinesh Gandhi: Rs.250 is it?

Jagdish Bajaj: Imported coal is Rs.1325, pet coke is around Rs.1100 Mn. KCL.

K C Birla: Pet coke is cheaper by 17% to 18% as compared to imported coal.

Jinesh Gandhi: So 1325 per tonne is what you require for your operations as against 1100 for pet coke, is that what you mentioned?

Sharad Agarwal: Jinesh, Mr. Bajaj was referring to on an equivalent million CV basis. Mr. Birla has already clarified that it is 17% to 18% lower.

Jinesh Gandhi: Got it. Thanks and all the best.

Moderator: As there are no further questions I would now like to hand the conference over to Mr. Jagdishwar Toppo for closing comments.

Jagdishwar Toppo: Thank you. On behalf on Enam we thank Mr. Adesh Gupta, Mr. K.K. Maheshwari, the senior management team of Grasim as well as UltraTech and all the participants for taking their valuable time to attend this conference call. We wish all the participants a very Happy Diwali and Prosperous New Year. Thanks very much. Operator, please conclude this call.

Moderator: Definitely. On behalf of Enam Securities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.