Grasim Industries Ltd

Q1FY12 Earnings Call on 1st Aug 2011 hosted by ENAM Securities Pvt Ltd

Moderator Ladies and gentlemen good day and welcome to the Grasim Industries Q1 FY 12 Earnings conference call hosted by Enam Securities. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Jagdishwar Toppo from Enam Securities. Thank you and over to you sir.

Jagdishwar Toppo Thank you, welcome everyone to Grasim Industries 1st Quarter FY12 earnings call. We are pleased to have Mr. Adesh Gupta, Whole Time Director and CFO, Mr. Sharad Agarwal, GM Finance from Grasim Industries. From Ultra Tech we have Mr. K. C. Birla, Senior Executive President and CFO and Mr. Jagdish Bajaj, Executive President Finance. Without much delay I will hand over the floor to Mr. Adesh Gupta for his opening remarks. Over to you sir.

Adesh Gupta Let me start with the key highlights of the business. Both VSF and cement businesses have shown better performance over last year. In the VSF business after reaching peak in April, markets have shown signs of weakness with sharp decline in cotton prices and Chinese demand. Initially volumes have been impacted as buyer has preferred to reduce pipeline stock in the value chain. Our quarterly sales volumes at 54,839 tons declined by 19%. Prices of all the fibers have witnessed sharp corrections more particularly in later part of the quarter but they were better than the prices prevailing in the corresponding quarter last year. Production at almost 70,000 tons was impacted during the quarter due to suspension of operations at Nagda because of water shortage.

Good news is that the plant has resumed operations from 30th June 2011 with the arrival of monsoon and total shutdown this year has reduce to 27 days as against 55 days in the last year. Despite the challenging environment standalone revenues grew by 5% added by 29% increase in realizations.

On a standalone basis PBIDT increase by 15% to Rs 350 crores. Pulp JVs contributed to show better performance on back of better realizations. The consolidated PBIT grew by 22% from Rs 314 crores to Rs 382 crores. The acquisition of 1/3rd has taken Domsjo was completed during the quarter consolidate results include pro rata profit for Domsjo form 30th June 2011. In the allied chemical business PBIDT was up by 11% added by better utilization.

Coming to cement business, the cement business growth slowdown continued during the quarter due to overall economic slowdown. Cement sales volume grew by 5% led by additional volumes of the Star Cement. Operating cost increased due to the substantial increase in energy cost. Revenues were higher by 16% led by improved RMC and White Cement performance, acquisition of Star Cement and passing of the cost increases. Overall quarterly profits improved despite difficult market conditions. PBIDT increased by 16% to 1259 crores. We expect the cement industry to grow over 7.5% from the second-half with expected improvement in infrastructure spending and rural demand emanating from good agriculture growth.

Now let me move onto the financial performance. The consolidated revenue at 5937 crores increased by 16% and consolidated PBIDT for the quarter grew by 19% to 1748 crores. Interest and depreciation was marginally up mainly due to Star Cement. Consolidated net profit therefore was higher by 31% from Rs 575 crores to 752 crores. The performance on standalone business was impressive with increase in net profit by 40% from Rs 224 crores to Rs 314 crores.

Coming to the CapEx plan, expansion projects in VSF and cement businesses are progressing as per schedule. Orders have been placed for long delivery critical equipment and civil work has already been commenced. As informed earlier the total Capex including subsidiaries is ` 14,400 crores of which ` 3,400 crores is under implementation in a standalone company and ` 11,000 has been earmarked for cement business. CapEx flow for the year is expected at around Rs 6,800 crores of which Rs 800 crores has been spent during the quarter.

Finally to summarize both VSF and cement businesses have performed well during the quarter. However the environment in both the businesses in the current quarter has become challenging. In VSF the pressure is caused by correction in cotton prices and market conditions in China. With the onset of monsoons cement prices have fallen amidst surplus scenario. From Q3 onwards, rise in construction activities post monsoon and general revival of economies will boost demand and affect the prices ultimately. Grasim hopes that while the present scenario will improve gradually the company will be able to face the present challenges through its backward integration and cost leadership in VSF business and brand-image, its distribution network and operational efficiencies in the cement business. The businesses will benefit from the rising consumption as well as investment in the long run. Capacity expansion under implementation in these businesses will enable the company to grow at a rapid pace and consolidate its leadership even further. I'm sure after the challenging Quarter 2 we should gradually show improved performance with existing competencies and future plans. Thank you.

Moderator Ladies and gentlemen we will now begin with the question and answer session. We have the first question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi My question is on your VSF business, can you throw some light how demand shaping up for VSF and how would be the inventory levels?

Adesh Gupta As the pickup was little slow and we have built up a stock of 15,000 tons in the last quarter. We believe that with prices now stabilizing in China, probably in this quarter onwards we will be able to reduce the inventory levels.

Jinesh Gandhi So 15,000 tonnes of inventory is with company or you are saying at the China?

Adesh Gupta Obviously, the company.

Jinesh Gandhi But demand continues to remain decent, it's not under pressure?

Adesh Gupta **No,** Demand initially is under pressure because whenever the price correction takes place, on the downward side people prefer to liquidity stock and when it is on the rising side people may try to build more inventories with them.

Jinesh Gandhi But now it has normalized?

Adesh Gupta It looks like that it has normalized.

Jinesh Gandhi And secondly in terms of realizations after the peak which we saw during the quarter how is the current realizations as against ` 152 per kg. in Q1?

Adesh Gupta Current realizations are between ` 120 to ` 125 per kg. However these realization are about 15% to 20% up from 31st March 2010 level

Jinesh Gandhi Now ,Realizations they are also stabilizing after a downward trend in last quarter or their we still see some pressure?

Adesh Gupta We see stabilization in cotton and if cotton stabilizes then that should also lead to stabilization in VSF also. Relatively cotton market is much bigger than VSF market.

Jinesh Gandhi Because on the other side, because of strength in crude prices PSF prices are also now stabilizing?

Adesh Gupta One must see that in case of cotton, since March 2010, indexed to that months prices, the prices have gone up almost from 100 to 220 at the peak. However in case of PSF, the peak was 161 and for VSF it was almost 141.

Jinesh Gandhi Lastly on the VSF front how is the cost push, are we seeing cost stabilizing at higher levels or we are continued to see a cost push?

Adesh Gupta In case of VSF, the biggest component of the cost is pulp which constitutes between 55% to 60% of cost. Pulp prices has shown a sharp increase but the good part is that about 80% of pulp at the consolidated level we manufacture in-house, so to that extent we are safe guarded.

Jinesh Gandhi Even pulp prices are now stabilizing at higher levels or they are still going up?

Adesh Gupta The major consumption of pulp is not in VSF business, but by paper business. The dissolving grade pulp has gone up to $ 2700 per ton has now come down to $ 1400-1500 spot basis. Actually we do business on long term basis, therefore for us the applicable prices were around $1000 to $1100 per ton.

Jinesh Gandhi And last question on cement, how realization now versus 3900 in 1Q?

Adesh Gupta Cement there is about Rs 8-10 fall in a per bag prices since the month end.

Moderator Thank you. The next question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.

Navin Sahadeo One question on the VSF, average realization is about Rs 152 per kg for the quarter and you mentioned that there has been decline after that, can you please tell us what are the current prices?

Adesh Gupta As I have said it is around Rs 120-125 per kg.

Navin Sahadeo And also on the volumes front like first quarter has been a disappointment, last full year we did about 3,05,000 tons. What are the kind of volumes do you expect similar volumes for FY 12 also?

Adesh Gupta On yearly basis there should be any production cut further. Unlike in last July, because of good monsoon Nagda worked for full month this time and that should help in overall volumes.

Navin Sahadeo So should the volumes on year-on-year basis be flat?

Adesh Gupta No it should improve because there was only 27-day cut.

Navin Sahadeo So you are looking at improvement in the volumes?

Adesh Gupta Yes.

Navin Sahadeo And last question would be on cement, you are mentioning that second-half you're looking at the revival at the industry level of about 7.5% so which means that so far it's being just a zero percent growth for the industry. So are we seeing the industry for the second consecutive year to be growing by 4%-5%?

Adesh Gupta Obviously in the first half it does not grow, in second half our expected growth rate is 7.5%, overall growth will be in that region.

Navin Sahadeo So in two consecutive years back to back the cement growth coming in much lesser than even the GDP growth rate. So when exactly do you see recovery, do you see FY 13 expectation better?

Adesh Gupta Basically more recovery will come based on how the monsoon behaves and how fast is general recovery. So if that is revived…. we are saying 7.5% more on conservative basis. If things move faster, then why the demand should not grow?

Navin Sahadeo So if 7.5?

Adesh Gupta Ultimately everybody is still predicting around 8% growth rate and that general formula from cement growing at 1.25 times is still applicable. It is only present condition which is causing some kind of bottleneck.

Navin Sahadeo In present conditions you mean for volume growth for the company Ultra Tech per se what is the kind of volume growth you are expecting?

K. C. Birla It should be in-line with the industry.

Moderator Thank you. The next question is from line of Rajesh Kumar Ravi from Karvy Stock Broking. Please go ahead.

Rajesh Kumar Could you throw some light on the RMC business performance?

Adesh Gupta RMC business has generally improved. Mr. K. C. Birla we give you little more information.

K. C. Birla RMC turnover during this quarter is up by 25%, last quarter it was 328 crores versus this quarter it is 411 crores and in terms of PBIDT number also, last year there was loss of 4 crores, now this quarter there is profit of 10 crores.

Rajesh Kumar And in terms of volume that we did in the RMC?

K. C. Birla RMC volume it was 9.35, last year, now it is 1.1 million cubic.

Rajesh Kumar And in the March quarter volumes, the performance numbers if you have?

Jagdish Bajaj 1.19 million cubic meter in March, June it was 1.16 million cubic meter.

Rajesh Kumar And similarly 0.935 million cubic in the last June?

K. C. Birla Yes.

Rajesh Kumar On the CapEx data that you shared, we just wanted to know what sort of the most of the CapEx that around Rs 5000 worth of CapEx in the cement business is on the logistics, evacuation and up-gradation?

Adesh Gupta Yeah.

Rajesh Kumar What sort of improvement should we be witnessing forward based on these CapEx, performance improvement?

Adesh Gupta As a rule I will tell you that every modernization CapEx which we do, it should result in 18%-20% IRR, that is when if you take every new CapEx.

K. C. Birla Out of these 11,000 crores CapEx what we said is 9.2 million ton is for creating the capacity and the other we have a logistic; in the cement major cost 25% comes from logistic. So the material evacuation and logistics infrastructure definitely as Adeshji has said that we are planning more than 18% IRR on these Capex. Other Capex is on the thermal power plant of 75 mega watts and waste heat recovery system. So all these initiatives definitely will help in improving the bottom line of the company.

Rajesh Kumar Because we are currently doing good utilization level in peak times, Ultra Tech and Samruddhi both have achieved 90% of capacity utilization. So just want to know what sort of this Rs 37 billion, how would that enhance the asset sweating going forward?

K. C. Birla No this includes various power and fuel saving , measures at different location. Every year we take some up-gradation and plan for improving the efficiency of the plant.

Adesh Gupta Actually this also includes some land on which we may acquire for future plant.

Rajesh Kumar Last question on the putty business details also like we initially used to share the RMC & putty volumes like you share for the other three – cement, clinker and the white cement.

Adesh Gupta Now considering the size of our cement business it is a small portion so therefore we are not sharing it. It is available, you can always take these details off the line from our people.

Moderator Thank you. The next question is from line of Vivek Maheshwari from CLSA. Please go ahead

Vivek Maheshwari Sir my first question again is on VSF volumes. Now in this quarter as you indicated there is a volume or rather the stock buildup, what gives you confidence that things will improve because if I go back in the history, it took almost 4-5 quarters in 2008 for inventory levels to comedown for sales to pick up again and second a bit on volumes again is, your presentation mentions that China was operating, industry was operating at 60% during the quarter and most of players were incurring cash losses. Was that something that was evident only in first quarter or there were pressures in a quarter prior to that as well?

Adesh Gupta First of all, conditions now are not parallel to what has happened in 2008, actually in 2008 the whole economy has crashed, the revival was coming gradually. In the present case it is because of cotton prices. All of us know, they were behaving in irrational manner. Even in each of our earlier result presentation we have said that the cotton prices are at a good high level.

Whenever price corrections take place, there is a tendency in the textile value chain, they try to reduce so that losses because of falling prices can be avoided and that is what has happened. So once the prices are stabilized at any level because ultimately for smooth running some inventory is required for stabilized quantity. It is not that demand has disappeared, for some time because the prices were falling, they were trying to manage with whatever minimum quantities possible.

Vivek Maheshwari So now you're saying with price stabilization the inventory levels will not drop further in that rate?

Adesh Gupta That is what we feel.

Vivek Maheshwari And about China, was this something that you saw only in first quarter or there were problems visible in the prior quarters as well?

Adesh Gupta Yes in China prices has started falling from April onwards only, as offshoot of cotton fall.

Vivek Maheshwari And they are not as cost-efficient as you are and therefore the losses etc, is that correct?

Adesh Gupta Definitely for us the integration is very high. Again they are more dependent on cotton linter Pulp which has higher prices linked with cotton.

Vivek Maheshwari And second just housekeeping question on what would be the Pulp prices during the quarter?

Adesh Gupta There are two kinds of pulp prices which prevails one is on long term on a contract basis and second is based on the spot prices.

In case of spot, the prices have touched as high as $2600 per ton in April and it has come down now to around 1400 level. Whereas in case of long-term contract actually we are paying only $1100 per ton because we pay based on index which is what is applicable for paper grade pulp and is relatively stable.

Vivek Maheshwari And you have JVs and subsidiaries who also supply you pulp etc, those are at LT or long term levels for those are at the spot levels because obviously in the consolidated it would not matter but from the standalone perspective?

Adesh Gupta Before acquisition of Domsjo it was only Canadian company they were mainly supplying to us only, they were not supplying to the outsiders.

Vivek Maheshwari And that is at long-term price?

Adesh Gupta Their price was linked to long-term price.

Vivek Maheshwari And just last question which is both on cement as well as VSF, while it may be difficult to predict realizations in both the businesses because of the volatility etc, do you think that cost pressures have peaked in both cases after coal linkage prices being already captured in the quarter and so is the case with VSF, your views on that?

K. C. Birla The positive for us is Vivek that in the demand is lower we are optimizing on the cost. Exactly , this quarter indigenous coal we have improved from 36% to 43%, imported coal which was 52% now has come down to 38% and we are focusing on use of Pet coke which is gone up from 12% to 18%. So that no doubt that 30% increase full impact has not come but we are optimizing based on the products and demand.

Vivek Maheshwari And sir when you say indigenous you mean both linkage as well as open market, right?

K. C. Birla Right, absolutely.

Vivek Maheshwari Do you believe that other than diesel price hike impact pretty much everything is in the numbers then and assuming the volatility further in the international prices, that the cost have peaked to that extent?

K. C. Birla No I think there is plus minus of $2-$3 for the imported coal and since indigenous coal 30% is already increased so that is trend likely to be.

Moderator Thank you. The next question is from the line of Nibadita Joshi from CRISIL. Please go ahead.

Nibadita Joshi I have two questions on the cement business front. Firstly I wanted to understand what was the rail-road mix during the quarter and second would it be possible to share operating data for the Star Cement like what was the production, sales and realizations for Star Cement?

K. C. Birla Basically the rail-road mix during this quarter is 60% is by road, 36% is by rail and 4% is by sea- route. Coming to performance of Star Cement, you know that scenario in the UAE is still the demand is on the lower side, there is overall de growth in the UAE by 13% but in case of Star Cement our capacity utilization was more than 95% and our market share also has gone up from 12.8% to 14.3%. Yes definitely the sales realization is concern area time being, the prices has not improved.

Moderator Thank you. The next question is from the line of Reena Verma from Merrill Lynch. Please go ahead.

Reena Verma I just have some housekeeping questions, firstly I just wanted to know why your standalone depreciation had declined quarter on quarter, secondly I wanted to understand why the improvement in EBITDA per ton in VSF is lower than the improvement in prices. So if you can share with us the pulp prices data for the last quarter and this quarter please?

Adesh Gupta As far as your first question depreciation, we had an air craft which we have sold in the current year and therefore depreciation has come down. Coming to VSF, the cost of manufacturing if you compare with corresponding quarter last year have gone up by almost 22%.

Reena Verma Sir I am just comparing sequentially.

Sharad Agarwal As far as the pulp cost is concerned that was stable on the sequential basis but the increase has been due to increase in the energy prices and the increase in the caustic soda prices.

Reena Verma What percentage of your cost is energy and caustic soda?

Sharad Agarwal That would-be around 15% to 20% depending on the price levels.

Reena Verma But I'm just trying to understand this a bit better because for a 15% to 20% increase cost prices must have impacted your overall margins so much.

Adesh Gupta Again, the sales were lower in this quarter, the Nagda production was hit for 27 days so the costs have also gone up.

Reena Verma So the pulp prices were stable Q-O-Q and in July have they fallen somewhere they were in 1Q?

Adesh Gupta I'm repeating prices on a spot basis are falling. Wherever we are procuring pulp on spot basis, those prices are definitely hitting us like in this quarter our domestic prices was up by almost 42% because of this cost as compared to the corresponding quarters, whereas the imported prices have gone up only by 5%.

Reena Verma Now that the spot prices have corrected sharply, July-September quarter assuming long-term contract prices remain where they were, you should have much lower cost?

Adesh Gupta Cost, corresponding to the domestic share that will come down.

Reena Verma On your CapEx, can you please tell us what is the CapEx incurred on VSF and on cement in Q1?

Adesh Gupta It is 200 crores in case of standalone company and about 600 crores in the cement.

Reena Verma Sir, you are expecting a very-very substantial pickup in the CapEx run rates for the rest of the three quarters?

Adesh Gupta See, obviously, we have taken up these expansion projects. As they come closer to the......

K. C. Birla These were the initial advances for ordering for the CapEx, now deliveries and everything will come, so naturally the Q3, Q4 the CapEx spending will be much more.

Adesh Gupta The only amount which may fluctuate much is what we are proposing on land in case of cement .

Reena Verma The final two question, one is on VSF, can you share with us the per day kind of run rates that you are seeing in July on sales and in cement, can you please share with us what is the decline in cement prices compared with Q1 on a region wise basis, thank you?

Adesh Gupta Replying to your last question first, actually the fall is almost, as I have said earlier, prices from the Q1 level from 30th of June to 30th July have come by ` 8 to ` 10 per bag and there is no sharp variation of region to region.

Reena Verma So, South has also fallen in your numbers?

Jagdish Bajaj It is difficult to make a forecast on regional basis. Therefore it is better to talk on average fall of ` 8 to ` 10.

Reena Verma Sure, in VSF what is the daily sales volume run rate for July?

Adesh Gupta Unlike in cement business where everyday production is sold on the same day, in case of VSF business in the last few days of the month the sales is skewed , it is very difficult to say what is the average rate.

Moderator Thank you. The next question is from the line of Arjun Kanani from CD Equisearch, please go ahead.

Arjun Kanani Sir, I would request you to reiterate on the CapEx of the cement business. I mean the company envisages the total CapEx is around 11,000 crores in the next few year and the capacity that would be 9.2 million that would be coming up. It would be commissioned by FY14 Q1. So, of the total CapEx of 11,000 crores, how much you will envisage for the next FY12 and FY13?

Adesh Gupta When we are giving the 11,000 Crores that is the CapEx which is presently approved for the schemes which have started under implementation in this year. Again in FY12-13, we will take up fresh CapEx also apart from this CapEx. The new CapEx is for year 2012-13 and 2013-14, will also be approved further as we go ahead. So, out of the 11,000 crore which is presently approved, 5140 crore will be spent almost in this year and 5860 crores in the next 15 months thereafter.

Arjun Kanani So, this would be there and along with that the new CapEx that would be planned in the year going forward?

Adesh Gupta Yes. Every year our Board gives sanction for the CapEx for which we have to place order during the year or the project for which the work start during the year.

Arjun Kanani What would be the mix of internal accruals and external debt that the company would be using for that?

Adesh Gupta Roughly we try to do 1:1, since we are carrying a little surplus fund at the moment and it may be sometimes initially , we may use more internal fund but more or less our policy is have a fund 1:1 ratio debt-equity for CapEx.

Arjun Kanani Just want to ask, has the coal prices being peaked out in this quarter or can we expect any further price hikes going forward?

K. C. Birla No, I think since it is a domestic coal recently the government in March has increased the price by 30% so we do not expect any further increase, at least for this year, I can't say after that. Imported coal is also almost softening by \$3-\$4 but as I said we are focusing on mixing different type of fuel, so that we maintain cost structure very competitively.

Arjun Kanani Sir, in the CapEx plan, how much extra captive power plant would be coming up, giving that 504 MW is the current capacity, how much extra would be coming on board?

Adesh Gupta There will be two types of power plants which will be coming, one is along with the expansion and it will be about 95 MW. Secondly for our existing plants we are also putting up new waste heat recovery plants of 45 MW besides thermal power plant of 75 MW. So in all it is about 200 MW which will be commissioning.

Moderator Thank you. The next question is from Rishabh Bothra from B&K Securities, please go ahead.

Rishabh Bothra Just wanted to know what the inventory levels for VSF segment are and value at, what prices both for raw materials and finished goods?

Adesh Gupta In case of raw material, we normally keep one month stock whereas in case of VSF, the levels are around 15 to 17 days.

Rishabh Bothra In quantum terms if you could mention?

Adesh Gupta I already said that at June end it was 15,000 tons of VSF fiber.

Rishabh Bothra And finished goods?

Adesh Gupta Fiber is the finished goods and pulp is the raw material.

Rishabh Bothra And valued at?

Adesh Gupta At cost, it will be somewhere around 80-85.

Rishabh Bothra You mentioned 80-85?

Sharad Agarwal Basically, what Mr. Gupta is saying that it is valued at cost as per the company's policy which should be around ` 80-`. 85 per kg.

Rishabh Bothra Could be there some sort of lower realization going forward further because of the prices?

Adesh Gupta I think you join late. We have clarified earlier also was that we see some kind of stabilization in China now and therefore we feel that the overall market should have stabilized by now.

Rishabh Bothra Sir, we are expanding our capacity which will be coming up in Q1 FY14. What could be the stabilization timeframe for these plants to run at 100% utilization rate?

Adesh Gupta See, normally new VSF plant does not take much time to stabilize. They are stabilized normally within three months. However in case of the expansion in Vilayat, actually the proportion of newer modal yarn, etc., is high and which is relatively new the stabilisation time will have to be watched.

Rishabh Bothra These CapEx when you complete the utilized will give an additional revenue and profitability of what tune?

Adesh Gupta If you see clearly when we start any new expansion project, we start the project with an IRR of minimum of 16% to 18%

Rishabh Bothra You mentioned that we have long-term contract and spot contract. What is the mix like, percentage?

Adesh Gupta Including our future expansion 80% is already covered by our own captive usage so if it is only the remaining 20% and that also more or less we will be able to tie up with the long-term contracts.

Moderator Thank you. The next question is from the line of Salil Desai from IDFC Securities, please go ahead.

Salil Desai Question is in reference to what Mr. Birla was saying. The domestic procurement of coal has improved to about 43%. Now this additional quantity has linkages improved or we have increased e-auction procurement?

K. C. Birla No, I have said that since the capacity utilization during this quarter has come down from 85 to 81%, there was an opportunity to optimize the cost structure. Therefore the linkage was when the capacity was 100% and then there was shortage. But when the capacity utilization is lower, getting the same linkage quantity, the percentage will improve.

Salil Desai Any idea how e-auction coal prices are?

K. C. Birla I think they are ` 600 to ` 800 premium on the e-auction.

Salil Desai That is over the basic linkage, sir?

K. C. Birla Yes.

Salil Desai Finally in the presentation when you have mentioned that there is 30 to 150% hike by Coal India. Now these are depending on the grade of coal classification. In our case what would be the predominant grade of coal that you'll be using?

K. C. Birla We are getting “E” and “F” grade coal where the increase is 30%.

Salil Desai Largely we are looking at a 30% increase. Finally the tax rate seems to be little at a lower side, any particular reason?

Adesh Gupta Presently we have good amount of surplus funds and whatever we invest in mutual funds, etc., that gives us a better tax rate.

Moderator Thank you. The next question is from the line of Nikhil Deshpande from PINC Research, please go ahead.

Nikhil Deshpande On the white cement business we have seen a decline in volume. So could you share…..

Adesh Gupta The kiln was closed for 22 days and therefore it was down.

Nikhil Deshpande So no such...

Adesh Gupta No, there was no demand issue.

Nikhil Deshpande And the other thing is 75 MW thermal power plant and the waste heat recovery 45, when is it expected to come on stream?

Adesh Gupta In the next year only.

Nikhil Deshpande FY13?

Adesh Gupta Yes.

Moderator Thank you. The next question is from the line of Pritam Lala from B&K Securities, please go ahead.

Pritam Lala My questions are a bit macro in nature I'm not looking for accurate answers here but just wanted a sense, in the region or the states that you sell, what would be the sector capacity as of now, the total capacity, a very rough sense in the region that you sell?

K. C. Birla If you want some industry wise data, all India capacity is 308 million ton, out of this North 104 million ton, East 44 million, West 45 million and South 115 million.

Pritam Lala Pertaining to the specific region that you sell to, I'm just trying to gauge what could be the overcapacity in those regions as of now, pertaining to the areas that you sell to.

K. C. Birla Normally we sell 30% in North and West market and around 21% in the southern market and around 19% in the East market.

Pritam Lala In these markets do have a rough sense of annual demand now so how much of overcapacity currently is there in these markets?

Adesh Gupta Since your questions are more on the macro business, there are always fluctuations from quarter-to-quarter between the supply and utilization but on a long-term basis we also plan on our capacities so that we go in line with market, the chances are that we will be super hit in one region or we gain very super high profits in other regions are also remote.

Pritam Lala Considering your capacities utilization of 81% would it be right to say that they may be 15 to 20% of overcapacity in the regions to which you sell, very roughly?

Adesh Gupta We and Holcim group are the only pan India player with large quantity.

K. C. Birla I think it is a short-term call. Considering what we believe considering the Indian economy scenario, all zones will continue to grow up. Presently this is because of no government spending and there is policy bottleneck. Therefore this is the scenario. Since we have a pan India presence we take a decision on the assumption that the demand will continue to grow .

Pritam Lala I totally understand and appreciate that, just one more question. See in the remaining couple of years a very rough sense again. I am not looking for accurate numbers. Like you are expanding capacity, in those regions where you sell, what is the total incremental capacity which is coming up for the sector in those regions, very rough figure would do?

Jagdish Bajaj It will be difficult to assess at this juncture what would be the zonal capacity additions but on aggregate level I can say around 80 to 90 million capacity would be added in the next five years.

Pritam Lala 80 to 90 million capacity will be added in the next?

Jagdish Bajaj 5 years.

Pritam Lala This is on an all India basis.

Jagdish Bajaj You're right

Adesh Gupta Since you've asked this question and for the benefit of others and the participants also, when we plant a new capacity we do bottom up planning that what can be sell in each region, etc., and based on that we plan our capacities.

Pritam Lala And your IRR to target remains at 14 to 15%, I think?

Adesh Gupta No, IRR target is between 16 to 18%.

Moderator Thank you. The next question is from the line of Sandeep Bansal from UBS, please go ahead.

Sandeep Bansal Firstly what would be our imported coal costs currently per ton?

K. C. Birla It is around $141.

Sandeep Bansal The other question what I had was we expect the industry overcapacity likely to remain for the next 2 to 3 years. But we are not really seeing the small players losing money because realizations has remained good, so what are your views on consolidation in the industry, do you expect it going forward and would you be participating in the same if at all?

K. C. Birla I think that definitely we are here for the growth whether it is organic or inorganic. But presently you see there is much more gap between the buyers and the seller's expectations.

Sharad Agarwal The industry continues to be fragmented.

Sandeep Bansal Would you expect this gap between the prices to narrow or this expectation is not going to go away because the cement pricing in the industry remains healthy?

Adesh Gupta Not many deals are taking place. We believe that the smaller player also, maybe they are losing today, they are optimistic about the future as we are.

Moderator Thank you. The next question is from the line of Mangesh Bhadang from Quant Broking, please go ahead.

Mangesh Bhadang First on the Domsjo acquisition that we had done, basically on the annual level what would be the contribution at net level from that acquisition? And secondly how does it improve our raw material availability, the captive raw material availability for the pulp in the Grasim's standalone?

Adesh Gupta I can answer the second question much faster, it produces 2,10, 000 tons of pulp and therefore since all the three companies of the group are participating, more or less whatever is the requirement as per immediate future growth will be covered. Secondly, as far as the margins are concerned, in the first three months of the operations Domsjo earned around 173 crores operating profit.

Mangesh Bhadang This is what you said what is the total production it may not be necessary the one third proportion in terms of giving out the pulp. So it would be anything depending on the requirements of the company?

Adesh Gupta Yes.

Mangesh Bhadang And just one more question on the UltraTech, if a look at the total operating costs pertaining to UltraTech in the last three quarters, say from last three quarters say from 3rd quarter FY11 to 1st quarter of FY12, it has been more or less similar like from 3200 to 3291, not much of increase has been there. But whereas all the other costs including P&F, freight, the domestic and international coal prices have risen. So what has led to this very slow progression in operating costs /ton compared to even other companies that have reported?

Jagdish Bajaj Let me explain to you this way, last five years from acquisition of UltraTech by Grasim, we put a lot of CapEx relating to capital efficiency initiatives including setting up a power plant and all. So all these are resulting in to the advantage of UltraTech when the controllable cost can be controlled and the inflation related cost like wage, etc., which are not controlled by us. That is one of the reasons we could contain our cost increase despite increase in the coal prices and other inflationary cost relating to salary, wages, raw material, etc.

Mangesh Bhadang So basically there was nothing one-off or something related to the inventory that you are holding but it is mainly because of the improvement.

Jagdish Bajaj In the last three years' period if you see the inventory the cost will pan out.

Moderator Thank you. The next question is from the line of Girish Chaudhary from Spark Capitals, please go ahead.

Girish Chaudhary Can you share the details of Star Cements revenue on the EBIDTA for the quarter?

K. C. Birla Star Cement, the capacity utilization production wise we achieved a volume of production 6.66 lakh ton during this quarter. The realization front, yes the realization is in the range of $42 to $53 per ton of cement and operating PBIDT level, we are flat.

Girish Chaudhary Okay, so breakeven, right?

K. C. Birla Yes.

Girish Chaudhary What is the percentage stake we are holding in this company, sir?

K. C. Birla We are holding 80%.

Girish Chaudhary How much we have paid as a consideration for this company?

K. C. Birla $356 million minus debt, so net-net is $158 million.

Girish Chaudhary Is that consideration is fully paid for as on 31st March?

K. C. Birla Yes.

Moderator Thank you. The next question is from the line of Chockalingam Narayanan from Deutsche Bank, please go ahead.

Chockalingam Narayanan Just one thing on the other income part and they've been in the profit from the sales of the aircraft because other income is about 80 crores slightly higher than what we usually book?

Adesh Gupta Sale of aircraft and has taken place in the last March itself. Other income includes surplus from mutual funds etc., whatever surplus funds we are carrying now.

Moderator Thank you. The next question is from the line of Ritu Modi from Ambit Capitals, please go ahead.

Ritu Modi I just wanted to know what are the RMC realizations for this quarter as well as the previous quarter?

Adesh Gupta RMC realization basically goes on what kind of mix is there. So it is very difficult to…. You can get in touch with Mr. Bajaj, he will be able to give you answer off-line.

Ritu Modi Okay, also one more thing is that you said that your percentage of indigenous coal has increased from 36% to 43%, so would it be possible to share the prices of the linkage if it is possible?

Adesh Gupta The linkage prices are the same which are applicable.

K. C. Birla Linkage coal basically we calculate the prices per ton basis the linkage coal is just `. 3500 per ton.

Ritu Modi And e-Auction prices are at around ` 600 to ` 800, premium to the linkage, right?

Chockalingam Narayanan Yes.

Ritu Modi And third if you could just tell us has UltraTech received any notice or something from MCA in regards to the pricing allocation because recently we had a news flash on Friday?

K. C. Birla This is an old case regarding these competitions commission notice which was given to all cement companies. We are dealing this in consultations with our legal.

Moderator Thank you. The next question is from the line of Srihari Sheshadri from Sundaram Mutual Fund. Please go ahead.

Srihari Sheshadri Can you just help me out, what kind of benefits we will have because of the CapEx on material and logistic evacuation? How does it affect us in the operating cost in the long term?

Jagdish Bajaj Let me respond to it this way, this will help us come closer to the key cement consuming markets. This will also incidentally help us in reducing our lead distance and freight cost. Our lead distance is almost flat sequentially and we are setting up these terminals will give a strong advantage in terms of maintaining these type of cost prices.

Shri Hariprasad Region wise, can you help me out which region you will be targeting, where is it going to be?

Sharad Agarwal We have already said that we are setting up terminals in our key cement consuming market.

Adesh Gupta See, basically with the main advantage that we will be able take material in clinker form which is much cheaper and secondly when we take the same in our own wagon, actually we get almost 20% discount from the government. Even transporting Cement in bulk becomes much easier. So some part of the packing, etc., in the remote centers the overall costs will come down.

K. C. Birla Let me explain further, not only because of cost initiative, you know that 100% dependency on the railway. the railway infrastructure has not increased. So you always share the volume loss, unless you create your own set up and therefore we are creating number of bulk terminals, more rakes, so dependency on railway to some extent can be reduced and we does not have any volume loss.

Shri Hariprasad When can we see the benefit of this?

Adesh Gupta This will be in place in the next 15 months onwards and then you will start seeing the benefit.

Moderators We have one last question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi Sir, can you repeat the profit of Domsjo which you mentioned?

Adesh Gupta Operating Profit of around 173 crores in this quarter.

Jinesh Gandhi And secondly the tax rate for the full year should be closer to 25-26% or we expect it to be lower than that?

Adesh Gupta That should be in the same range.

Jinesh Gandhi Lastly, cost optimization which we have seen on coal side, is it more to do with the lower volumes or we expect this to be more sustainable?

K. C. Birla No, I think the coal market rate we are expecting that there won't be much increase in the cost. But definitely because of this lower capacity utilization we are focusing on optimization of the running of the plant on different fuel mix. Therefore during this quarter of fuel mix has changed which has changed substantially in the course and also the power consumption during this quarter has also come down.

Jinesh Gandhi As volumes improved maybe the second half, one can expect reversal of fuel mix to earlier levels?

K. C. Birla I think that is likely.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Jagdishwar Toppo for closing comments. Please go ahead, sir.

Jagdishwar Toppo Thank you on behalf of Enam Securities with Mr. Adesh Gupta and the senior management team of Grasim, UltraTech and all the participants sitting here, taken their valuable time out to attend this conference calls, thank you so much. Good day. Operator please go ahead and conclude the call.

Moderators Thank you. Ladies and gentlemen on behalf of Enam Securities that concludes this conference calls. Thank you for joining us and you may now disconnect your lines.