



Grasim Industries

Investors Conference Call

May 11, 2011

Operator:

Thank you for standing by and welcome to Grasim Industries Limited Q4 FY11 earnings Conference call hosted by Enam Securities Private Limited.

At this time all participants are in a listen-only mode. There will be presentation followed by question and answer session, at which time if you wish to ask a question please press *1 on your telephone. Please be advised, this conference is being recorded today.

I would like to hand the conference over to Mr. Jagdishwar Toppo from Enam Securities. Over to you sir.

Mr. Jagdishwar Toppo:

Thank you Sunitha. Welcome everyone to Grasim Industries Q4 FY2011 earnings call. We are delighted to have Mr. Adesh Gupta, Whole Time Director and CFO, Mr. P.K. Jain, Senior Executive President, and Mr. Sharad Agarwal, GM Finance. From Ultratech we have Mr. K C Birla, Senior Executive President and CFO. Without much delay, I hand over the floor to Mr. Adesh Gupta for his opening remarks. Over to you sir.

Mr. Adesh Gupta:

Thank you Jagdishwar. Good evening everyone. On behalf of Grasim Industries I welcome you to this call on our fourth quarter results.

Some of you may not be having the results fully so therefore let me begin with highlighting that Grasim achieved its highest ever consolidated quarterly profits of Rs.865 crores. The profits are higher by 32% year on year over the corresponding quarter. The results were driven by improved performance of both VSF and cement business. In the VSF business, demand for VSF was upbeat as consumer awareness of the fiber increases and cotton prices touched the new peaks. VSF production during the quarter stood at 82,932 tons. All our plants operated at full capacity. Sales volume of 85,650 tons equaled the peak attained in the corresponding quarter last year. Revenue grew by 27% aided by better realizations. Input cost rose sharply with higher prices of pulp, caustic, and sulfur. At standalone basis, VSF business achieved PBIDT of Rs.514 crores, an increase of 41%. With higher contribution from pulp JVs the consolidated PBIDT in the business grew by 45% to Rs.567 crores.

As you are aware, the company has decided to buy one-third stake in Aditya Holding, Sweden, which controls Domsjo fabrica Sweden at an investment of Swedish Kroner 380 million, approximately Rs.280

crores. Aditya Holdings has recently acquired Domsjo an enterprise value of 2.12 billion Swedish Kroner, approximately Rs.1560 crores. Domsjo is a leading manufacture of specialty pulp in addition to being a unique bio refinery. This will ensure the regular supply of pulp for the outgoing VSF expansion projects. Domsjo earned operating profits of 546 million Swedish Kroner and net profit of 433 million Swedish Kroner in calendar year 2010. Expansion projects at Vilayat and Harihar are progressing as per schedule. As informed earlier, these projects are expected to be commissioned in FY13. We expect healthy profits from this business to continue. However, profitability in the short term will be governed by the prices of competitive fibers and input prices. Also, cotton production in the forthcoming season will be the key influencing factor. In the allied chemical business, operating profits were higher by 19% added by higher volumes as well as better ECU realizations.

Coming to cement business, you have already gone through the results of our subsidiary Ultratech in detail, hence I will be brief. Demand growth remained subdued during the quarter at 5.2% due to degrowth in states like Delhi, Haryana, Andhra and low growth in other areas. Lower spending on realty and infrastructure and non-availability of resources like aggregates and sand dipped the demand. High interest rate regime and governance issues are also having detrimental impact of investment scenario. We however hope that these factors will be factors of past and there will be upturn in the business and business should regain its earlier growth rate. We expect the business to again grow at 8.5% in the years to come. Cement sales volume grew by 6 to 7% supported by acquisition of Star Cement. Operating cost spiraled due to the substantial increase in input and energy cost which were partially passed on. During the quarter variable cost rose by 14% mainly on account of the substantial increase in energy cost. Revenues were higher by 14% led by improved RMC and white cement performance, acquisition of Star Cement and passing of the cost increases. PBIDT increases by 7% to 1142 crores in cement business. We expect the cement industry to grow over 8.5% per annum to sustain the growth in infrastructure, housing developments, and government initiatives in rural development.

Now let me move to the financial performance. The consolidated revenue at 6502 crores increased by 19%. All businesses contributed to revenue growth. With higher PBIDT from all its businesses consolidated PBIDT of the quarter also grew by 19% to 1782 crores. Interest expenses increased from 90 crores to 108 crores due to borrowings in and for Star acquisition. Depreciation increased from 258 crores to 299 crores. Net profits grew by 32% from Rs.654 crores to Rs.864 crores. Results of the Idea cellular for the quarter for this year are yet to be adopted by Idea hence they are not consolidated in Grasim's results. Accordingly, after adjusting in Idea results in corresponding quarter, Grasim's net profit grew by 35%. The performance on standalone basis was impressive with increase in net profit by 37% from Rs.289 crores to Rs.396 crores on continuing businesses. Total Capex outlay including subsidiaries is over 14,000 crores, Capex of 3400 crores is implementation in standalone company in VSF and chemical business. This includes Rs.2095 crores towards expansion projects at Vilayat and Harihar and Rs.772 crores on chemical. For the cement business, Capex at 11000 crores has been earmarked including 5400 towards expansion projects at Chattisgarh and Karnataka. Capex outflow for this year is expected to be more than 7000 crores.

Both VSF and cement have performed well. Capacity expansion plan under implementation of cement, VSF, and allied chemical are on track. VSF capacity will increase by almost 50% and cement by 20% in the next two years. Further expansion plans are enabled in the cement business. Strong consumption as well as investment has supported India's growth story over the last decade and will continue to do so in the future. Grasim with its presence in VSF and cement will immensely benefit from both rising consumption as well as investment. Large capacity expansions under implementation will enable the company to grow at a rapid pace and further consolidated stability. Thank you.

Mr. Jagdishwar Toppo:

Thank you sir. Sunita, can we commence the Q&A session, please?

Operator:

Yes sir, thank you. At this time, participants if you wish to ask any question, please press *1 on your telephone keypad and wait for your name to be announced.

The first question we have Mr. Jinesh Gandhi from Motilal Oswal. You may go ahead please.

Mr. Jinesh Gandhi:

Good evening sir.

Mr. Adesh Gupta:

Good evening.

Mr. Jinesh Gandhi:

My question is on your VSF business. Can you give indication on by when the new capacities will come at Vilayat and Harihar?

Mr. Adesh Gupta:

The Harihar capacity will come in about 18 months time and the Vilayat will come in 24 months time.

Mr. Jinesh Gandhi:

24 to 26 months from now.

Mr. Adesh Gupta:

24 months from now. It will start commissioning lines from December to March.

Mr. Jinesh Gandhi:

Sorry.

Mr. Adesh Gupta:

Actually, Vilayat will be fully operational in 24 months, it will start commissioning from December 2012 onwards.

Mr. Jinesh Gandhi:

Okay, Vilayat will be by December 2012 and Harihar will be may be by March 2012?

Mr. Adesh Gupta:

By September 2012.

Mr. Jinesh Gandhi:

September 2012; so considering that our new capacities will be only coming by second half of FY13, would it mean that our VSF volumes will be remaining at current range of about 82,000 to 83,000 per quarter?

Mr. Adesh Gupta:

Yes, except, still the Nagda water problem at least for this year is not solved, may be next year we may have full production. The new reservoir will ensure that there is no shutdown. But at least for the current year, we are not able to predict about shutdown.

Mr. Jinesh Gandhi:

Yes, I mean for example our fourth quarter volumes our production of 83,000 tons was without any problem at Nagda. So considering that run rate, our VSF volumes per se the headroom to grow is limited from these levels.

Mr. Adesh Gupta:

Yes.

Mr. Jinesh Gandhi:

Okay, and secondly any pricing action which we took in May in VSF?

Mr. Adesh Gupta:

So far we have not taken any pricing action, but we understand that there is some slowdown at global international level in the prices, how and when we will react to that, that is difficult for us to say at the moment.

Mr. Jinesh Gandhi:

Okay, but demand per se remains firm.

Mr. Adesh Gupta:

Demand, we have to understand that today business is extreme buoyant.

Mr. Jinesh Gandhi:

Okay, so demand as such at ground level we are not seeing any impact of the decrease in competing fiber prices?

Mr. Adesh Gupta:

Prices have started moving now, actually, and even the prices today the average prices is higher than the average prices in the last quarter.

Mr. Jinesh Gandhi:

Right. So, what would be current prices of VSF, ballpark number?

Mr. Adesh Gupta:

At the international level, it is around 3 dollar per kg.

Mr. Jinesh Gandhi:

3 dollars per kg, and our prices in India?

Mr. Adesh Gupta:

About 158 to 159 per kg.

Mr. Jinesh Gandhi:

158 to 159, okay so that is pretty large increase. Even if it reduces by 10 to 12 rupees, it will be still at around fourth quarter average, right. And secondly, in terms of our investment in Domsjo, our total investment will be about 280 crores, and we will be getting 33% stake.

Mr. Adesh Gupta:

Yes.

Mr. Jinesh Gandhi:

Okay, and so will we be treating this as associate company rather than a subsidiary, okay.

Mr. Adesh Gupta:

It will be a JV actually.

Mr. Jinesh Gandhi:

It will be a JV.

Mr. Adesh Gupta:

With other group companies.

Mr. Jinesh Gandhi:

Okay, got it. Okay sir thanks. I will come back in queue.

Operator:

Thank you. Next question we have Mr. Naveen Sahdeo from Edelweiss Securities. You may go ahead please.

Mr. Naveen Sahdeo:

Yes, good evening sir.

Mr. Adesh Gupta:

Good evening.

Mr. Naveen Sahdeo:

Congratulations for the very good set of numbers.

Mr. Adesh Gupta:

Thanks a lot.

Mr. Naveen Sahdeo:

Yes, I had a question on VSF, sir this quarter has reported a very high EBITDA per ton as in for VSF of roughly around 60,000 rupees per ton or 60 rupees a kilo, and the costs have also moved up sequentially. You just explained that the current prices are also on the higher side. So, would that mean that for the June quarter the EBITDA per ton can also be much higher than what we saw for the March quarter?

Mr. Adesh Gupta:

The market is very volatile, how it does in future will largely depend on how competitive fiber behave.

Mr. Naveen Sahdeo:

Yes, but April and May has already underway.

Mr. Adesh Gupta:

If today's prices prevail probably.

Mr. Naveen Sahdeo:

Yes, so I basically was requesting a color on the cost front in the sense that if 95,000 approximately was the cost per ton for the quarter what could be the current cost?

Mr. Adesh Gupta:

Basically, it is the pulp prices which is the biggest component. And the fortunate part is that if we take a hit in pulp prices, we gain in our pulp subsidiaries. So, to a large extent we are not hit by pulp prices.

Mr. Naveen Sahdeo:

Right, and of this 95,000 approximately how much could be the pulp contribution in overall cost sir?

Mr. Adesh Gupta:

It was about 60%.

Mr. Naveen Sahdeo:

So, approximately 57,000 . . .

Mr. Adesh Gupta:

Yes, 55% to 60% is the pulp cost.

Mr. Naveen Sahdeo:

55% to 60%, so approximately 55,000 to 57,000 rupees per ton is the current pulp cost for us?

Mr. Adesh Gupta:

Yes, you are right.

Mr. Naveen Sahdeo:

And second question basically was if you could just repeat the profitability as an operating profit and PAT numbers for Domsjo?

Mr. Adesh Gupta:

This number is 433 million Kroner in the calendar year 2010 in Swedish Kroner.

Mr. Naveen Sahdeo:

That is the PAT number?

Mr. Adesh Gupta:

Yes these are PAT numbers.

Mr. Naveen Sahdeo:

Sir, please repeat, 410 . . .

Mr. Adesh Gupta:

433 million Kroner in calendar year 2010.

Mr. Naveen Sahdeo:

Right, okay, thank you very much, sir. I will come back in queue for the questions.

Operator:

Thank you. Next question we have Mr. Ajit Motwani from Emkay. Global. You may go ahead please.

Mr. Ajit Motwani:

Yes, congratulations for a good set of numbers sir. Just wanted to understand you know this Domsjo acquisition I guess your current integration on the pulp side is about 65 to 70 odd percent on a consolidated basis, how will that change post acquisition and also once the Vilayat plant is up and running?

Mr. Adesh Gupta:

Once Vilayat plant starts running, it will come down to 45% without Domsjo, and then it will bounce back to about 65%.

Mr. Ajit Motwani:

Okay, and . . .

Mr. Adesh Gupta:

We would like to clarify that the price benefit will not come on a standalone business as all transactions will be at arm length basis.

Mr. Ajit Motwani:

Yes I sort of agree there you know that the profits will be consolidated as the JV, and sir I wanted to know you know how much of this 210,000 tons of production or capacity would be catering to Grasim's VSF requirement?

Mr. Adesh Gupta:

It is very difficult to say at the moment, I can only say that 25% of the pulp they manufacture is very high special quality and which is used for pharma and other uses. Probably that portion will continue to be sold outside

Mr. Ajit Motwani:

Yes, if I heard it correctly, 25% is what you are saying will be sold outside?

Mr. Adesh Gupta:

Yes.

Mr. Ajit Motwani:

And also just wanted to understand you know last year around same quarter last year you had about 40 days shutdown on Nagda plant?

Mr. Adesh Gupta:

Yes.

Mr. Ajit Motwani:

Are the reservoir levels, you know good enough to have a lower shut down this year or?

Mr. Adesh Gupta:

See it all depends on when the rains comes, if the rains come early, probably we will be able to reduce.

Mr. Ajit Motwani:

And how are the inventory levels now with the company like they started building up?

Mr. Adesh Gupta:

Inventory level of what?

Mr. Ajit Motwani:

VSF like last year you had started building up inventory before the shut down itself.

Mr. Adesh Gupta:

See these are very routine and operational issues. Actually, I do not think that we can go into these operational issues.

Mr. Ajit Motwani:

Sure, that is it from my side sir.

Operator:

Thank you. Next question we have Mr. Neha Manpuria from J.P. Morgan. You may go ahead please.

Mr. Pinakin:

Yes, hi, this is Pinakin from J.P. Morgan India office. Good evening sir. Just a few questions. On Grasim's standalone books, what will be the current investible cash or cash securities right now as of the year end.

Mr. Adesh Gupta:

3500 crores.

Mr. Pinakin:

3500 crores, and given that what you have mentioned of the VSF Capex obviously this is and there will be cash generation again this year. The cement Capex will be funded out of Ultratech. Is there any other strategies of you know utilizing the cash balance because obviously this will keep on increasing given the cash count.

Mr. Adesh Gupta:

Our first priority clearly is feeding our existing businesses, that is VSF and cement. Cement actually has presently announced, only 9 million ton of cement plant. They are continuously working on the plans and depending on their plans, when their plan freezes then only we will be able to think whether we will have to, . . . see cement has a tremendous cash requirement and, before going for anything else, we will fully support our cement business.

Mr. Pinakin:

Understood sir. Can you give us any update on Star Cement, I mean last quarter if I remember, there was a PAT loss of 27 crores, what would be the situation over there right now?

Mr. K C Birla:

Star Cement the capacity utilization in Q4 is around 92% and at EBITDA level the turnover during this quarter was 181 crores, and at EBITDA level it was 8 crores. So, it still has a cash profit and margin is in the range of 6 to 7%.

Mr. Pinakin:

Okay, understood.

Mr. Adesh Gupta:

Clearly I mean one thing we have clearly understood, you know when we acquired, the conditions will remain tight for next one and half to two years and we have acquired considering that it is a long-term investment. It is not a short term investment.

Mr. Pinakin:

Understood. And sir you have given a Capex in the cement business of 7000 crores in FY12 and again in FY13 with the capacity scheduled for coming up in FY14 first quarter, in terms of both of these capacities, where would be in terms of you know the key milestones like all the clearances and the land acquisition and the limestone, is all of the three components in place and equipment ordering has been started or any of the three is yet to be finished?

Mr. Adesh Gupta:

Both the brown field plants are fully tied up and substantial ordering has already been taking.

Mr. K C Birla:

All clearances are in place and we have ordered for the plant for both the locations.

Mr. Pinakin:

Understood, so to that extent the time line in terms of commissioning of these capacities would, the possibility of delays, I mean we should expect this to hit in FY14 first half?

Mr. Adesh Gupta:

Absolutely.

Mr. Pinakin:

Okay, thank you very much sir. This is from my side only.

Mr. Adesh Gupta:

Thank you.

Operator:

Thank you. Next question we have Ms. Supriya from HSBC. You may go ahead please.

Ms. Supriya:

I just want to understand the outlook on the cement demand and the price realization going forward?

Mr. Adesh Gupta:

Hello.

Ms. Supriya:

I just wanted to understand the outlook on the cement demand and the price realization going forward.

Mr. Adesh Gupta:

As we have mentioned since the last two years, the capacity has gone up by 40% by creation of new capacity of 60 million ton last year and 28 million this year. But ultimately you see today if cement plant has to be put, it cost you almost 140 dollar, that means you have to earn 1200 rupees per ton, whereas the business is nowhere earning that at the moment. So, therefore from the business side there will always be push that how do we achieve 1200 tons. Of course this gap will narrow down in the next two years and then we will be getting some premium prices.

Mr. K C Birla:

To extend that whatever capacity has been created, the industry capacity utilization is in the range of 75 to 80%, and we anticipate that okay for next 18 months this scenario will continue. So, again the pricing depends upon demand and supply, but definitely there is a supply scenario.

Ms. Supriya:

There is supply scenario, it means there we will continue to have a pressure on the realization.

Mr. Adesh Gupta:

See we are very optimistic that lot of infrastructure related activities which we were always hoping and which has actually affected the last six months. So, it will be back in action, and if that comes in back in action the things should change a little bit faster.

Ms. Supriya:

And what was our current capacity utilization as compared to the Q3?

Mr. Adesh Gupta:

About 82%.

Ms. Supriya:

82%, okay sir, thank you sir.

Operator:

Thank you. Next question we have Mr. Risha Batra from B&K Securities. You may go ahead please.

Mr. Risha Batra:

Congratulations for a good set of numbers.

Mr. Adesh Gupta:

Yes thank you.

Mr. Risha Batra:

Sir just wanted to understand what are the current VSF realization and considering the cotton prices being on a downside as of now, could we pass on such benefits to customers or we will maintain our current price realization or . . .

Mr. Adesh Gupta:

See current international prices, the VSF prices have also gone up to 3.75 dollars. Presently, the international prices are around 3 dollar plus, against which the Indian prices are around 158 rupees. I do not think we have any premium or discount. Even the cotton prices have gone up almost 150%, actually at one stage has surpassed even VSF prices. So, if the price is rising at that pace, has to come down.

Mr. Risha Batra:

Okay. So, we will maintain our prices as of now or might consider taking price hikes as well?

Mr. Adesh Gupta:

See price is a market dynamism, you have to follow the market dynamism and it is created by competition. Lately speculation also plays in sharp variation of the prices.

Mr. Risha Batra:

But any cost saving measures where we can optimize on apart from volumes and realization?

Mr. Adesh Gupta:

See cost saving method, in our group, cost cutting is continuous process. It is a continuous process and whatever is in our control will never allow it to go up.

Mr. Risha Batra:

Sure sir. And with this acquisition of Domsjo, what kind of expansion can we foresee in coming two years down the line in margins, margin expansion because of this acquisition, because we will be sourcing . . .

Mr. Adesh Gupta:

See, whether it is Grasim or even the other group companies, they will continue to buy from Domsjo at arms length because you cannot buy other than at arms length, only the advantage is that you will get priority, you will get long-term contract.

Mr. Risha Batra:

But is there any variation in quality as well?

Mr. Adesh Gupta:

Variation from what?

Mr. Risha Batra:

Currently what we are sourcing from outside, or it is the same quality?

Mr. Adesh Gupta:

You see it is one of the best pulp plants.

Mr. Risha Batra:

Okay, fine sir. That is it from my side.

Operator:

Thank you. Next question we have Mr. Salil Desai from IDC. You may go ahead please.

Mr. Salil Desai:

Sir, one question on the cost in this quarter. Other expenses seem to increase some 50% quarter on quarter from about 80 crores in Q3 to 119 crores. Sir, any specific items which have seen inflation here?

Mr. Adesh Gupta:

See other expenses also include, you know there are a lot of freight charges, and then your clinker movement with the split locations has started going up.

Mr. Salil Desai:

Sir I was talking about Grasim standalone.

Operator:

Excuse me. Participants are requested to please hold the line. The leader line got disconnected. I will be connecting shortly. Please hold the line.

Mr. Salil, you can ask.

Mr. Adesh Gupta:

Hello.

Mr. Salil Desai:

Yes sir, I was referring to Grasim standalone numbers.

Mr. Adesh Gupta:

See one clear cost is some donation of about 15 crores which we have given in this quarter. We always give only in the last quarter.

Mr. Salil Desai:

I see, all right, okay. And sir second is when or how soon can we expect to enter into any long-term agreement with Domsjo for procuring pulp?

Mr. Adesh Gupta:

It should happen in the next two to three months.

Mr. Salil Desai:

Okay, so basically fiscal 12 we will have sort of

Mr. Adesh Gupta:

See presently for next three to four months, things are well secured, so, therefore we are not much bothered in any case.

Mr. Salil Desai:

So, sir is it possible that in the interim and before Vilayat expansion starts we might actually increase captive pulp procurement from whatever 65 odd percent right now to may be at 75 to 80% because of Domsjo?

Mr. Adesh Gupta:

See, either Domsjo will sell to us or it can sell to the outsider the benefit of which may accrue to us as a shareholder in any case.

Mr. Adesh Gupta:

Fair enough. I am just trying to get in operationally how it will . . .

Mr. Adesh Gupta:

We also have existing long-term arrangement with the other suppliers. So, since I do not look after the operational things, so I am not aware that when these are expiring, and, if you compare these contracts, they are substantially lower price than the spot prices of pulp.

Mr. Salil Desai:

Okay, all right. And sir one final clarification is if I heard it right, current VSF prices you said are at about 158 rupees a kg?

Mr. Adesh Gupta:

Yes.

Mr. Salil Desai:

Okay, thank you very much sir.

Operator:

Thank you. Next question we have Mr. Neerav Shah from Antique Stockbroking. You may go ahead please.

Mr. Neerav Shah:

Yes, good evening sir. Most of my questions have been answered but just a couple of things. Sir can you give your cement production guidance for this current year in the domestic side, or the kind of growth that we are expecting?

Mr. K C Birla:

Yes cement this Q4 the capacity utilization was 88%, the domestic volume was 10.22 million.

Mr. Neerav Shah:

Okay. You are talking about the FY12, what is our guidance for the dispatch.

Mr. K C Birla:

It should grow faster than the industry, that is what is our aim.

Mr. Neerav Shah:

Okay sir. Industry is somewhere around we are expecting 8 to 8.5, so we must be somewhere around 9 to 9.5 at least.

Mr. K C Birla:

Yes this is what we are expecting.

Mr. Neerav Shah:

And sir just last thing, sir what was the dispatches in April because that figure was not reported?

Mr. K C Birla:

I think dispatch number is not readily available with me but there is growth.

Mr. Neerav Shah:

Okay, so I mean it is higher than what it was in last April, say last April was 3.4, so it is higher than that.

Mr. K C Birla:

Right.

Mr. Neerav Shah:

Okay, fair enough sir. Thank you sir that is it from my side.

Operator:

Thank you. Next question we have Ms. Reena Varma from Merrill Lynch. You may go ahead please.

Ms. Reena Varma:

Yes, hi, thank you very much for the opportunity. I have a few questions. Firstly on your dividend, can you please throw some light on how you thought about the dividends for this year and why it has been pegged at a level which from an already low pay out ratio for 2010 seems to have fallen another 100 bps. So, if you can please explain that, that is my first question. My second question is on your Capex guidance, which even when you put out the third quarter presentation, you had a number which was nearly double or if not double at least 50% higher than what you have achieved in fiscal 11. So what have been the major surprises in the fourth quarter in terms of the Capex slippage and you know how realistic is the guidance for fiscal 12 actually if not 13 and onwards? And I have two more questions on the business side, but I will come to it after you have answered these questions on the overall finances please.

Mr. Adesh Gupta:

See first of all, see if you start 2009-10 profit, includes profit of cement division for six months. And that also included the profit of extraordinary profit of 330 crores which we earned on Vikram Ispat. In the current year both these profits are not there. In the last year our profit for the standalone company was 2092 crores against which the profit is 1180 crores. On the 2092 crores we have paid 14.77% last year. Even if I remove 336 crores extraordinary, payout ratio was 17.6% of the net profit last year. This year, the profit of 1182 crores, on this 200 crores, the net profit pay out is 18.04%. So, how do you say that the net profit pay out is lower, it is in fact higher. On cash basis, if you consider the profit is, the rise is from 10.8% to 12%, 13.98% to 16.27%.

Ms. Reena Varma:

Sorry, I am just looking at you know your . . .

Mr. Adesh Gupta:

On net profit basis it is, against 17.6% the pay out has gone up to 18.04%, after reducing the extraordinary profit of 336 crores last year. We should not, because ultimately the profit is distributable to the share holders. Conservatively we have excluded those profits also, but if would not have excluded the dividend would have been 14.77% only.

Ms. Reena Varma:

Yes, sorry and I will take this up separately if you know we are not able to match our numbers on the call, but you know if I am looking at your EPS given in the press release, you know you reported 247 rupees as your diluted EPS or whatever, EPS per se. You have declared a dividend of 20 rupees, am I right?

Mr. Adesh Gupta:

Yes.

Ms. Reena Varma:

So, 20 upon 247, that is a pay out of 8%.

Mr. Adesh Gupta:

You are correlating with consolidated. Actually, so far in India, the consolidated profits are not fully used for this purpose. With IFRS, we should move in this direction. More importantly, we are sitting on high capex and cement is not earning to full potential. Since cement is still in a growth phase, the dividend pay out there is less and it should improve going forward.

Ms. Reena Varma:

Okay, and on my second question on Capex slippage please?

Mr. Adesh Gupta:

Actually, I could not get your question fully.

Ms. Reena Varma:

My question is on your Capex numbers, in your third quarter presentation when you put out the Capex guidance you had you know a number against fiscal 11, I will just tell you in a minute, you had the number against fiscal 11 of 24 billion rupees.

Mr. Adesh Gupta:

Yes.

Ms. Reena Varma:

And you have spent 16 billion rupees as per your recent press release.

Mr. Adesh Gupta:

Yes.

Ms. Reena Varma:

So, you know, I am wanting to understand which businesses have been this . . .

Mr. Adesh Gupta:

See, last year Capex included lot of land and other, that today to get land is one of the most difficult tasks.

Ms. Reena Varma:

Okay so, does that mean that all of the slippage in Capex is mainly attributable to cement?

Mr. Adesh Gupta:

See in VSF in any case there was not a major Capex plan last year. See for VSF only 290 crores was earmarked in any case.

Ms. Reena Varma:

Okay, so for whatever Capex guidance you have given us for fiscal 12, you know is this the number that you realistically expect to spend or is this you know would you say it is your most optimistic number of 71 billion rupees for fiscal 12?

Mr. Adesh Gupta:

See our business has assured that based on the current state of implementation, they will be able to, because when I say there is a clear pressure on them to expedite this. Again there will be some land again in this capex, about 500 to 750 crores for the land and now you never know that actually these land acquisitions will happen within time. In fact based on your feedback and even our own urgency to grow, we are tightening on the Capex monitoring system internally.

Mr. K C Birla:

Reena the point is that in the cement major Capex of 5000 crores is for these two projects.

Ms. Reena Varma:

And how much percentage of land acquisition for these two projects is complete?

Mr. K C Birla:

Everything is completed, these projects are . . . these are brown field expansion.

Ms. Reena Varma:

Right, so the next slippage will not be because of land right?

Mr. K C Birla:

Right, like Adeshji said, that this includes Capex of 800 to 1000 crores for further expansion and for land acquisition, there may be chance that whether we will not succeed as per the plan

Ms. Reena Varma:

Okay, sir thank you very much and may I please ask you on the . . .

Mr. Adesh Gupta:

Reena, what message you are trying to give me, if you are giving me message that we are slow, we are realizing some of this, and then we are assuring that the project management system should be little more stronger.

Ms. Reena Varma:

No sir, excuse me if I come across that way but my difficulty as an analyst is that you know every year you have a fairly high Capex guidance which we build in and then at the end of the year you know we chop it by a very large percentage and this has been going on not just in the last few years.

Mr. Adesh Gupta:

I am repeating, every year based on our learning we are strengthening our capital expenditure. For us we realize that lot of, see these figures are not given for misleading the investor, this is what we sincerely want to achieve. There are always you know slips between the cup and the tea.

Ms. Reena Varma:

Sure sir, thank you. Sir, may I just quickly you know because you must be having lots of other questions as well, just two more questions from me. Sir, you know on the cement business, two things, one is you know do you have any on the ground feedback that demand growth is accelerating and in which regions, because your guidance is higher than last, you know what we have seen last year; and secondly, on pricing your presentation says you expect stable pricing. What gives you that confidence?

Mr. K C Birla:

Reena, basically, let me take you through Q4 performance and if we see the, Q4 performance, north growth was not up to the standard, north traditionally has grown at the higher percentage, but because of degrowth in Delhi by 7.3% and because of Haryana and Himachal, the Himachal where the degrowth was 12% Basically except the Central zone other zones there was a subdued growth or little growth, we are expecting this scenario should come back, particularly in the south market if you count, the Andhra Pradesh we have seen 13% degrowth, Karnataka we have seen 1% degrowth, Goa we have seen 6.7% growth, Kerala hardly 1% growth. So, we are hopeful that in the north and southern market again the growth should continue and that 8.5% growth which we are expecting we are hopeful that we will achieve better than that.

Ms. Reena Varma:

So, in April have you seen a recovery in either north or south?

Mr. K C Birla:

Yes, there is recovery, particularly in the southern and the northern market, some recovery is there.

Mr. Adesh Gupta:

Reena, to further supplement Mr. Birla, actually, see if India has to grow the infrastructure has to grow and then if infrastructure grows, cement has to grow, that is what our feeling and that is our strong belief it should happen. And I think even the government is also committed that even though you are not seeing but at least this time they are saying that we have already awarded so many road projects.

Mr. K C Birla:

I see it should pick up.

Mr. Adesh Gupta:

Being in the business, we cannot be pessimistic. What is your second question?

Ms. Reena Varma:

Sir, I will just move on to VSF in the interest of time. And just wanted to know that you know I know that business is not a mathematical model but what could lead to a downward revision in local VSF prices, you know, is there a tolerance level on cotton or on VSF. I mean can you help us to think about at what point we should start to worry about the downturn internationally?

Mr. Adesh Gupta:

No, see international downturn, the VSF prices have already touched 3.75 dollar, which is today at anything at 3 dollar. Similarly, in cotton also at one time cotton has crossed even the VSF prices in India and globally the rise is much faster it has risen 150% or so.

Ms. Reena Varma:

So, you know, as of now based on whatever we have already seen is there any reason to worry about local VSF prices in India?

Mr. Adesh Gupta:

See, Reena, I cannot answer your question straight, but see we are always saying that the conditions today are more buoyant than what it should be. If we are saying that the conditions are more buoyant, we are accepting that we are getting more than normal premium. I think I cannot say beyond that.

Ms. Reena Varma:

Sure sir. Thank you very much. That is it from me. Thank you very much.

Operator:

Thank you. Next question we have Ms. Nitakshi Asha from J.M. Financial. You may go ahead please.

Ms. Jay Asher:

Hi sir, Jay Asher here.

Mr. Adesh Gupta:

Yes.

Ms. Jay Asher:

Sir, congratulations on good results. Just two small queries from me. Sir, you have placed orders for the CPP for both VSF and cement division?

Mr. Adesh Gupta:

Yes. For both VSF expansion and cement we have CPPs.

Ms. Jay Asher:

Okay, second, can you just tell us the capacity for both VSF and cement?

Mr. Sharad Agarwal:

For the VSF it is 90 megawatts and for the cement it is 75 megawatts for the existing units and 95 megawatts for the brown field expansions.

Ms. Jay Asher:

Okay, and what will be the . . .

Mr. Adesh Gupta:

And besides there is 45 megawatt on waste heat recovery system.

Ms. Jay Asher:

Okay, second, can you just give us a breakup for this?

Mr. K C Birla:

Cement you see the present capacity of CPP is 504 megawatts, with these two brown field expansions the capacity will go to 674 megawatts. Then in addition to these, for Tadpatri and awarpur we are creating 65 megawatts. So these are the total TPP and in addition we are going for waste heat recovery system.

Ms. Jay Asher:

Okay so including the new CPP and waste heat recovery, the total power capacity will go to 674 or it will be more than that?

Mr. K C Birla:

It will be 674.

Ms. Jay Asher:

674?

Mr. K C Birla:

Yes.

Ms. Jay Asher:

By FY14?

Mr. K C Birla:

Absolutely, yes first quarter.

Ms. Jay Asher:

Okay. And sir who is the equipment supplier for all of this CPP and waste heat recovery plants?

Mr. K C Birla:

Basically we go with Thermax for the CPP and it is Texpro for waste heat recovery.

Ms. Jay Asher:

Okay. Thank you very much sir. That is it from my side.

Operator:

Thank you. Next question we have Mr. Lakshmi Narayan from PNB Paribas. You may go ahead please.

Mr. Lakshmi Narayan:

Sir, good evening sir. Congratulations on excellent numbers. My first question is VSF would there be any impact on yourself from the DEPB change in the scheme. More specifically if you could tell us how much of VSF would you export and how much is consumed or sold domestically?

Mr. Adesh Gupta:

But there is no such any, it is not announced.

Mr. K C Birla:

No change announced. If there was likelihood, could have been.

Mr. Adesh Gupta:

See unless a policy is formed, to talk of future policies is not right.

Mr. Lakshmi Narayan:

Okay. Sir, can you breakdown your volumes of VSF sold domestically versus export?

Mr. Adesh Gupta:

Actually, 90% of the VSF is, about 85% of the VSF is sold in India, about 15% is exported.

Mr. Lakshmi Narayan:

Okay. And I could not understand this very clearly, your Domsjo investment, would give you know basically help you with raw material, tying up raw material for your VSF. Would they be directly supplying raw material to your VSF production or how does it happen. Basically I am trying to understand. . .

Mr. Adesh Gupta:

This is a whole process, it should ensure wherever we are not getting to get priority in pulp supplies.

Mr. Lakshmi Narayan:

The idea was to know how much of your raw material sources are tied up internally, so would that change materially going forward, 15, 12, 13 and so on?

Mr. Adesh Gupta:

See today my 90% of the things are tied up, rather 100% is tied up. Actually, what is causing risk is that I am expanding by 44%, so for that only we require tie up.

Mr. Lakshmi Narayan:

Okay, so this is also for your future needs, thanks.

Mr. Adesh Gupta:

Yes.

Mr. Lakshmi Narayan:

Okay, so the 150,000 tons that you would add in say fiscal 13, is that, okay that is why you need this, okay.

Mr. Adesh Gupta:

But this also will not meet 155,000 tons requirement, see it will be shared by all the three investing units, so it is not that Grasim's requirement alone will be met. We are still looking for more tie ups and that happens either through acquisition or long-term tie up and we will try to do that.

Mr. Lakshmi Narayan:

Okay. Thank you so much sir.

Operator:

Thank you. Next question we have Mr. Yogesh Patil from Canara Rebecco. You may go ahead please.

Mr. Yogesh Patil:

Good evening sir.

Mr. Adesh Gupta:

Good evening.

Mr. Yogesh Patil:

Sir, regarding your chemical business, I guess your caustic soda is 100% consumed for own?

Mr. Adesh Gupta:

About 82%, see mostly it is consumed, except that for our Harihar unit actually we buy something and to that extent, so surplus is sold from Nagda.

Mr. Yogesh Patil:

Your realizations are 18,888, I guess in last quarter the average realization was around 22 to 25000?

Mr. Sharad Agarwal:

No. You are talking about which quarter?

Mr. Yogesh Patil:

Q4.

Mr. Sharad Agarwal:

In this Q4 we have an ECU realization of 18,882.

Mr. Yogesh Patil:

Yes, this is something different from market price or if the transfer pricing is different or the state of the market?

Mr. Sharad Agarwal:

No, the transfer pricing between the VSF and the chemical is done on the market basis, but this is net of excise, so may be what you are talking about is including the excise and all that.

Mr. Adesh Gupta:

We get benefit of excise and freight and . . .

Mr. Yogesh Patil:

Okay, thanks.

Mr. Jagdishwar Toppo:

Sunitha, excuse me?

Operator:

Yes sir.

Mr. Jagdishwar Toppo:

How many more questions we have?

Operator:

We have eight questions sir, more.

Mr. Jagdishwar Toppo:

Can we take two more and conclude the session please?

Operator:

Okay fine sir.

Next question we have Mr. Ashish Jain from Morgan Stanley. You may go ahead please.

Mr. Ashish Jain:

Good evening sir. Sir just one thing I wanted to understand, in your Capex slide, the number under modernization and upgradation has actually moved from you know roughly 2200 crores in December to 3700 crores now. So, just wanted to understand what has really changed there in terms of you know what incremental you have planned or something?

Mr. K C Birla:

Actually this modernization Capex of 3700 basically covers land Capex of around 1000 crores. We have a carry forward project of 500 crores, we have white cement Capex of 150 crores, and rest of 1500 crores is for normal modernization for all the plant.

Mr. Ashish Jain:

Okay, so 500 crores you said is towards what?

Mr. K C Birla:

This ongoing carry forward project.

Mr. Ashish Jain:

Okay. And sir this land Capex is beyond the two plants that you already have?

Mr. K C Birla:

Yes.

Mr. Ashish Jain:

Okay. Thanks that was useful sir, thank you very much.

Operator:

Thank you. Last question we have Mr. Vivek Maheshwari from CLSA. You may go ahead please.

Mr. Vivek Maheshwari:

Good evening sir.

Mr. Adesh Gupta:

Yes.

Mr. Vivek Maheshwari:

Sir, what would be your estimate on the capacity addition for industry in fiscal 12, would you have any such number?

Mr. Adesh Gupta:

Fiscal 12 again we are expecting around 20 million tons.

Mr. Vivek Maheshwari:

20 million tons, okay. So, I mean if you assume a demand growth of say 8% on a base of 2010, the supplies will be higher than demand again this year, right, so operating rates could actually go down again in fiscal 12?

Mr. K C Birla:

Yes this is what we said that the capacity utilization on these capacities will be in the range of 75 to 80% and progressively it will improve.

Mr. Vivek Maheshwari:

And 75 to 80% would be broadly the utilization in fiscal 11 as well?

Mr. K C Birla:

I think yes.

Mr. Vivek Maheshwari:

Okay. And on the VSF side sorry if I am repeating this question again, but in the international markets you mentioned that the realizations are down from 3.75 to 3 dollars, is that correct.

Mr. Adesh Gupta:

It has touched up to 3.75 dollar and then now it is 3 dollar.

Mr. Vivek Maheshwari:

Okay, so which is like a good 20% kind of a correction, so anything to extrapolate for the domestic market or the dynamics are completely different?

Mr. Adesh Gupta:

Dynamics are linked with, and the 3.75 also was not there in international market for a long time. So, to say that in your business also there are some, some spike, the spike have to be eliminated always.

Mr. Sharad Agarwal:

Vivek to add, the average international realization was 3.3 dollars for the quarter, to add to what Adeshji said.

Mr. Vivek Maheshwari:

I see, okay, and a few maintenance questions. What will be the tax rate for Grasim in fiscal 12 and for Ultratech in fiscal 12?

Mr. Adesh Gupta:

Say it will be same between 27 to 30%.

Mr. Vivek Maheshwari:

27 to 30%, okay. And what would be the average pulp prices in Q4?

Mr. Sharad Agarwal:

It was around 1100 dollars for the imported pulp.

Mr. Vivek Maheshwari:

1100 dollars, and would you have any sense about the current spot pricing?

Mr. Adesh Gupta:

See current spot touched, again you know they have gone up to 3000 dollars per ton, currently it is around and it is moving between 2000 to 2400.

Mr. Vivek Maheshwari:

2000 to 2400?

Mr. Adesh Gupta:

Yes.

Mr. Vivek Maheshwari:

Okay, and lastly you mentioned standalone cash is 3500 crores right. What would be the debt on books in Grasim standalone?

Mr. Adesh Gupta:

800 crores.

Mr. Vivek Maheshwari:

800 crores, so 2700 crores net cash?

Mr. Adesh Gupta:

Yes.

Mr. Vivek Maheshwari:

All right, thank you very much sir and all the best.

Mr. Adesh Gupta:

Thank you.

Operator:

Thank you. At this time, I would like to hand floor back to Mr. Jagdishwar Toppo for final remarks, over to you sir.

Mr. Jagdishwar Toppo:

Thank you. On behalf of Enam we thank Mr. Adesh Gupta, the senior management team of Grasim as well as Ultratech and all the participants who are taking their valuable time out to attend this call. Thank you.

Mr. Adesh Gupta:

Sorry, we had to cut short but if anything is there, they can always contact me or Mr. Sharad Agarwal, for any further queries.

Mr. Jagdishwar Toppo:

Okay, operator please go ahead and conclude the call.

Operator:

Thank you so much sir. That does conclude our conference for today. Thank you for participating on Reliance Conference Bridge. You may all disconnect now.