

Shree Cement: Conference Call

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MODERATORS: **MR. HM BANGUR - MANAGING DIRECTOR – SHREE CEMENT**
MR. ASHOK BHANDARI - CFO - SHREE CEMENT
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Moderator Ladies and gentlemen good morning and welcome to the Shree Cement Q1FY10 Results Conference Call, hosted by Religare Capital Markets Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touch-tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mihir Jhaveri of Religare Capital Markets, please go ahead Mr. Jhaveri.

Mihir Jhaveri Thank you Marina, Good evening ladies and gentlemen on behalf of Religare Capital Markets I would like to welcome you all to the Q1-FY2010, our next call of Shree Cement Ltd. On the Shree Cement Management we have with us Mr. HM Bangur, who is MD, Mr. Prashant Bangur - Executive Joint President, Mr. Ashok Bhandari - CFO. With this I would now like to handover the floor to Mr. Bangur for his opening remarks, over to you sir.

HM Bangur Good morning friends, we all have seen our quarter results. The cement industry in general has been good and particularly our volume growth and slight price rise both have put together given us a 50% rise in income, so we have all seen the results. I will directly start with question and answer mode.

Moderator Ladies and gentlemen we will now begin with the question and answer session. At this time if you would like to ask a question, please press '*' and then '1' on your touch-tone phone. If you want to withdraw your question from the questioning queue, please press '*' and '2'.





Participants are requested to use only handsets while asking a question. The first question is from the line of Ms. Prachi Bane from Indsec Securities, please go ahead.

Prachi Bane Sir, I would just like to know what is the current capacity of the company and any plans for any expansion?

HM Bangur Current capacity is 9 million tons and company is putting more grinding units to increase this capacity to 12 million tons without any new clinkerisation unit. Our fly ash consumption and conversion factor will increase to increase our total cement capacities.

Prachi Bane Okay sir and by when this 12 million tons would be achieved?

HM Bangur These 12 million tons will be achieved totally by June next year.

Prachi Bane Okay and sir on the CAPEX front what would be the CAPEX which you planned for this year and maybe next year as such?

HM Bangur About 400 crores will be there for the grinding units for increasing these 3 million tons, that will be the CAPEX on the cement clinkerisation side and then we are expending into the power business.

Prachi Bane Okay, so these 400 crores would be this year and next year as such?

HM Bangur Most of it will be spend this year and partially up to June 100%.

Prachi Bane Okay, sir on the power front what would be the CAPEX if you could just quantify it?

HM Bangur Just a minute, total CAPEX will be 436 crore for this year and we will be adding about 93 megawatt.

Prachi Bane Okay, these 436 crores is only for power you are talking about?

HM Bangur Yes.

Prachi Bane Okay sir on the debt front, any repayments which have been planned for this year out of the total debt round about some 1494 crores?

HM Bangur Total, yes Mr. Bhandari will answer about this.

Prachi Bane Okay.

Ashok Bhandari Yeah the total debt repayment in this year is about 123 crores and we are not planning to raise any further debt for all these expansions. So, all these expansions are going to be financed from internal generations.



- Prachi Bane** Okay and sir if you could just share the volume numbers for this quarter and the corresponding quarter last year?
- HM Bangur** Current quarter, both clinker and cement put together volume is 25.5 lakh tons that is 2.55 million tons. And correspondingly, in the last quarter it was 19.8 or so, right.
- Prachi Bane** Okay sir. Thanks a lot.
- Moderator** Thank you Ms. Bane. The next question is from the line of Mr. Ashok Nemani from Nomura Securities, please go ahead.
- Ashok Nemani** Sir, my question is regarding the other income. This quarter we have reported very high other income. Can you give me some breakup of that?
- HM Bangur** Yes, basically Mr. Bhandari will reply but mainly the other income is because we had FMP maturities, these all matured in the 1st quarter so the whole year income came into this, Mr. Bhandari will give the detailed reply.
- Ashok Nemani** Okay.
- Ashok Bhandari** Yeah Ashok 35 crore is FMP maturities, 11.5 crore is roughly interest on fixed deposits, so 46-47 crore is on account of other income in this quarter from treasury. Now, these 35 crores will taper down substantially. Interest will keep on accruing at the same rate of 11 to 11.5 crore every quarter for four quarters and the 35 crore FMP maturity will now scale down to about 8 crore or so in the balance three quarters.
- Ashok Nemani** Okay and sir, my next question is regarding the staff cost. The staff cost has also increased significantly so will this rate will be maintain for the full year?
- HM Bangur** Yes, it will be maintain for the full year and in fact we see the staff cost has come down because turnover has increased 50%, whereas the staff cost has increased only 40% or so.
- Ashok Nemani** Yeah, per ton wise it has come down that is true sir.
- HM Bangur** Per ton also it has come down and turnover wise also it has come down.
- Ashok Nemani** Okay and sir regarding depreciation, so what is the guidance for full year and can you give me like why that depreciation is going high?
- HM Bangur** Yes, our depreciation policy is totally income tax there. So if the plants are added this year and big capacities will be added, so the whole year's guidance is around 405 crore.



- Ashok Nemani** 405 crores, okay sir and I mean this is mainly because of high depreciation on new capacities, right?
- HM Bangur** Well, so sorry it will be 545 crores.
- Ashok Nemani** 545 crores okay sir and sir regarding tax rate, sir this is mainly because of power business or is there anything else, because of which tax rate is so low?
- HM Bangur** Tax rate is basically because of power business and higher depreciation that is all.
- Ashok Nemani** That is all, okay?
- HM Bangur** Yes, there are no other tax benefits.
- Ashok Nemani** Thank you sir, thank you very much.
- Moderator** Thank you Mr. Nemani. The next question is from the line of Mr. Vivek Maheshwari from CLSA, please go ahead.
- Vivek Maheshwari** Sir my first question is to Mr. Bangur. I mean demand has surprised so far so what according to you have been the key reasons for this strong momentum and demand in the 1st quarter for the industry as a whole, as well as for your company?
- HM Bangur** Demand has surprised everybody including us, now which are giving reserves but basically the demand is coming from the housing area and infrastructure. Though apparently it seems that the housing industry is doing very bad, real estate sector or others, but that is so only in metros. In class B cities and rural areas housing sector is booming because of the free cash flow available with people. Many houses of one room, two rooms are being built and the demand has really surprised us. Till now even in this quarter the demand is very good, there is no slowdown even with the monsoon coming.
- Vivek Maheshwari** Okay and in terms of capacity what are your estimates for the industry capacity additions in this fiscal year particularly for the markets in which you are operating?
- HM Bangur** The market it will be, around 8 million tons in North India, though it has written 12 million ton or so, but some of the capacities would get delayed or practically 8 million ton I think will be added and all India it should be about 40 million from this year.
- Vivek Maheshwari** 40 million ton, okay and do you have any estimates on full year demand growth as well sir?



- HM Bangur** Full year demand growth normally it is 1.3 times the GDP growth. So, if the GDP grows by 8% or so, we expect a demand growth of 10% or 182 million-185 million ton base it will be 18.5 million ton still higher.
- Vivek Maheshwari** Understood and these 40 million tons of capacity additions which you have mentioned obviously not everything we would be able to produce this year. So, on an effective basis it would be somewhere around say close to 20 million tons or thereabout or still lower according to you?
- HM Bangur** Much lower, because if we expect mid-year capacity generation then 20 million ton will be the effective capacity and to startup there are some teething problems so additional production will be 15 to 20 million ton only.
- Vivek Maheshwari** Okay, so which effectively means in your estimate perhaps, you know demand-supply balance in FY10 still would be pretty good, the operating rates would be pretty high, right?
- HM Bangur** Yes, operating efficiency will be better than last year, this is expected.
- Vivek Maheshwari** Sure and on the pricing any view? The prices have risen in the last few quarter so, what do you believe could be a scenario over the next 10-12 months, like?
- HM Bangur** In fact, the prices which have increased mostly it has gone to the infrastructure like transportation and excise. Effective price rise for the full year is ex-factory realization will be around 5-7% only. So that is part and parcel of inflation and little bit price increase. We normally see how the prices move compare to the general inflation and the ratio is around 1.01 or so even on 1960 base. So, the prices are at par with the inflations even on a long-term basis.
- Vivek Maheshwari** Understood. And what are the expectations for say next 12 months? Do you expect the same levels to be maintained or it could move on either side according to you?
- HM Bangur** More or less it should be stable but in the commodity market to predict price is quite difficult. The cost price can be predicted with certain amount of confidence.
- Vivek Maheshwari** Sure and lastly on your capacity additions you are adding 3 million tons of cement grinding capacity, right and your clinker capacity would be 7.5 million ton. So, I mean that implies 1.6 kind of a blending ratio. So, is there any plan to augment the clinker unit or what is the plan actually?
- HM Bangur** It is on the drawing board stage. But as it is not yet confirmed or not yet even.... so I will not like to talk about it. But 1.5 to 1.6 times conversion factor is possible and normally right now our conversion factor is 1.35 or so. So, we expect it to increase it to 1.35 to 1.45.



- Vivek Maheshwari** 1.35 to 1.45 okay, but you have announced Suratgarh and Roorkee has two Greenfield grinding units, but any specific reason because you know you could have done with one as well?
- HM Bangur** Not, it depends on the availability of fly ash, so our Roorkee grinding unit should give us the tax benefits, which are available till the year end if we start production so it is expected in this year end only. And Suratgarh will be catering to the North of Rajasthan and the Punjab market, so both are totally different.
- Vivek Maheshwari** Understood okay and just one last thing, you mentioned on depreciation for this year you are guiding for the 545 crores or 445 crores?
- HM Bangur** 545 crores.
- Vivek Maheshwari** 545 crores, right thank you so much sir, thanks.
- Moderator** Thank you Mr. Maheshwari. The next question is from the line of Vineet Maloo from Birla Sun Life Mutual Fund, please go ahead.
- Vineet Maloo** I just wanted to know, how much power have you generated this quarter and out of which, how much has been captively consumed and how much has been outside sales?
- HM Bangur** This quarter we have generated 220 million units of power and 167 million out of that has been consumed by captive consumption.
- Vineet Maloo** Sir, what is the realization that we are getting on outside sales?
- HM Bangur** On outside sales we are getting about Rs.6.50 to Rs.7 in between it varies. Till now the average is around Rs.6.70 or so, once I hear there.
- Vineet Maloo** And you expect it to continue like this only for some time?
- HM Bangur** No, we do not expect it should continue like this. The market has to mature and these rates will remain so for a year or two and then they should taper out.
- Vineet Maloo** Right, so for this whole year I mean how much outside sales would you expect?
- HM Bangur** We are adding lot of power in the 4th quarter, so that cannot be said exactly but we expect total generation of 900 million units.
- Vineet Maloo** Okay and sir, one thing on your cash flows I mean you are generating substantial cash flows and your CAPEX requirement at least right now plan are not that much also, do you plan to increase dividend or buyback or anything like that?



- HM Bangur** No, buyback we will definitely not be doing because this company will be needing fund in future and secondly, reissuing the capital will again be a costly business, but dividend will definitely increase. To what extent that we cannot say right now.
- Vineet Maloo** So, will it be gradual or any kind of special dividend we consider?
- HM Bangur** That the board will decide, but dividend increase will definitely be there.
- Vineet Maloo** Okay, right thank you sir.
- Moderator** Thank you Mr. Maloo. The next question is from the line of Mr. Ruchit Mehta from HSBC AMC, please go ahead.
- Ruchit Mehta** Sir, sorry I joined little late, but can you update us on what is the current debt profile of the company?
- Ashok Bhandari** Yes 754 crore as on 30th June, 2009, and the cash and cash equivalent position is about 1600 crores. These are the long-term debts contracted for, out of which about 53 million gets paid off in this year.
- Ruchit Mehta** And what would be the other debts, other from this long-term, in terms of working capital?
- Ashok Bhandari** Well, on a total basis the debt is at 1200 crore and the investments are at 1600, 1583 or so.
- Ruchit Mehta** Okay and just in terms of our capacity addition are now since you are looking to hit about 10 million tons of clinker in the current year by March, so what is the progress of that?
- Ashok Bhandari** As Mr. Bangur already explained the grinding units are likely to come up in 3rd and 4th quarter of this fiscal and in the mean time as you might have seen from the result of the 1st quarter we have sold about 2.5 lakh tons of 0.25 million ton of clinker. So, gradually this will be converted into cement as the grinding units come into play.
- Ruchit Mehta** Okay, so year end it will be 12 million?
- HM Bangur** Year end the capacity will be 12 million.
- Ruchit Mehta** And total cash outflow and the CAPEX in the current will be how much?
- Ashok Bhandari** Well, we have already spent about 141 crore and another 660 crore are expected in the next 3 quarters so, as per the earlier guidance the CAPEX for the year will be about 800 crore.



- Ruchit Mehta** Okay thank you so much.
- Moderator** Thank you Mr. Mehta. The next question is from the line of Ms. Madhuchanda Dey from Kotak Securities, please go ahead.
- Madhuchanda Dey** I have two questions, the first question is once you are in 12 million ton capacity and your power CAPEX is also through, how much would be your captive consumption of power and how much would be the surplus? And have you entered into any firm agreement for the sale of surplus power?
- HM Bangur** There is no firm agreement for the sale of surplus power on a long-term basis because the long-term power is being sold at Rs2.5 to Rs.3, while they hit sale is around Rs.6.5 to Rs.7.5. So, we are waiting and selling on a monthly or daily basis.
- Madhuchanda Dey** But once you are through with your entire capacity addition, how much will be the quantum of surplus power generated; I just wanted a sense on that?
- HM Bangur** Yes, we will be about 45% or so will be our consumption and 55% will be for sale-
- Madhuchanda Dey** Sir, nearly 100 megawatt will be for sale, if I am not mistaken?
- HM Bangur** Yes you are right 100 megawatts will be definitely, in fact it will be 120 megawatt for sale.
- Madhuchanda Dey** Okay and so you intent to sell in spot as well going forward?
- HM Bangur** See, spot and monthly on time to time but not on a very long-term or on basis of 5 year or 10 year contract, up to yearly contract we can go.
- Madhuchanda Dey** My next question is, you already indicated that this year on the pricing front the supply demand situation is still going to be matched because the effective capacity is 15 million tons, so that is on the realization side, but on the cost side, do you see any scope for further improvement or what kind of cost pressure do you envisage as we get into the second half of the year?
- HM Bangur** The cost of any improvement or substantial improvement I do not see any scope for that. There will be two things, two pressures, one will be that fuel pressure, fuel prices, where were bottomed out in the 4th quarter and the 1st quarter because of the European slowdown, we do not know how the pricing of fuel will be there. But definitely there will be a saving because of more addition of fly ash, our total cost per ton will come down because we will be adding fly ash to extend it to cement. So, these will be the two main features, increase in the fuel cost and reduction in the total cost because of fly ash volumes.
- Madhuchanda Dey** So, you expect the power ton cost to remain at current level given these two factors?



- HM Bangur** Yes, I expect so.
- Madhuchanda Dey** Okay thank you.
- Moderator** Thank you Ms. Dey. The next question is from the line of Mr. Bhaven Chheda from Enam Holdings, please go ahead.
- Bhaven Chheda** Yeah good morning sir, sir couple of questions, what is the average pet coke prices during this quarter versus Q1 last year?
- HM Bangur** This quarter it was about Rs.4000 and last year it was Rs.4800.
- Bhaven Chheda** And what are the current prices of pet coke around?
- HM Bangur** The current price is around Rs.4600.
- Bhaven Chheda** And what was the average realization of clinker during the quarter?
- HM Bangur** About 2700 clinker realization.
- Bhaven Chheda** 2700 and sir last one, what is the average lead distance in Q1?
- HM Bangur** This year we have got exact calculation on this, but it is around 540 kilometers.
- Bhaven Chheda** Around 540 kilometers?
- HM Bangur** Right.
- Bhaven Chheda** Thanks a lot and best of luck sir.
- Moderator** Thank you Mr. Chheda. The next question is from the line of Mr. Jinesh Gandhi from Motilal Oswal Securities Limited, please go ahead.
- Jinesh Gandhi** Sir my question is firstly on your blended realization for the quarter. Sequentially, it seems it has gone up by about Rs.15 per bag, is that correct?
- HM Bangur** No, it has not gone up by Rs.15 per bag. Rs.15 bag is there because of sales tax and market rates are increased, but we normally have to look at the ex-factory realization which has hardly gone up by 7% to 8%.
- Jinesh Gandhi** Sequentially 7% to 8%?
- HM Bangur** Sequentially no, it is last year to last year and sequentially it will be much less, it will be 2% to 3% only.



- Jinesh Gandhi** Okay, because my calculation suggested it is about Rs.15 a bag.
- HM Bangur** Sequentially?
- Jinesh Gandhi** Yeah.
- HM Bangur** There are two things, ex-factory sales has come down that is why our realization may seem higher but that will be restricted correspondingly into the freights charges, so and that I have not taken into account or I was looking at my ex-factory realization after freight.
- Jinesh Gandhi** Okay right and sir secondly, what is the power sale you mentioned, I just missed on that number?
- HM Bangur** 53 million in this quarter.
- Jinesh Gandhi** Okay sir that is all from my side thanks.
- Moderator** Thank you Mr. Gandhi. The next question is from the line of Mr. Jay Asher from JM Financial, please go ahead.
- Jay Asher** So, what would be your volume guidance for FY10?
- HM Bangur** FY10 will be about 10 million to 10.2 million tons somewhere in between including clinker and cement put together.
- Jay Asher** Okay and sir to achieve that, that means our blending ratio has to increase in the balance 9 month of the current year?
- HM Bangur** No, it does not have to because our 1st quarter volume in clinker and cement put together is already 2.55 million tons. Slightly volumes and ratios will change gradually, so that is why 10.00 to 10.02 that will be what we are expecting.
- Jay Asher** Okay and sir the balance 50 megawatt of thermal power plant, you expect to be commissioned in FY11 first half?
- HM Bangur** Yes, first half FY11.
- Jay Asher** Okay and sir what will be your broad volume guidance for power sales for FY10 in terms of million units or something like that?
- HM Bangur** About 220 millions unit.
- Jay Asher** And so what is the current realization that you are getting?



- HM Bangur** Current realization we are getting Rs.6.70.
- Jay Asher** This is blended for IEX and your short-term that you are going to do?
- HM Bangur** Yes, both put together there is mix of them is there and it is around 6.70. Part of the power we have sold to Rajasthan Government also for 3 months....a little in advance that is 650 and we expect total to come to 650 to 670 or something like this.
- Jay Asher** Okay and sir, your CAPEX guidance you mentioned for FY10 to be 800 crores, can you just give on FY11, because your power plant and some part of blending may go into FY11?
- HM Bangur** Till now the committed FY11 is around 100 crores and few plants are on the drawing board stage of more clinkerisation and more power so that we will be talking the next time. Till now it is not yet finalized.
- Jay Asher** Sorry, I missed your number, so you said 1100 is total committed CAPEX for FY10 and 11?
- HM Bangur** No 400, 800 for this year and 400 for the next year.
- Jay Asher** Okay and sir on when Mr. Bhandari spoke about the debt number, I missed in between....
- HM Bangur** He will just talk to you again, yes Mr. Bhandari.
- Jay Asher** Yeah Mr. Bhandari total debt was 1200 crores is it right?
- Ashok Bhandari** Yeah 1200 is short-term and long-term together and the cash and cash equivalent is 1583.
- Jay Asher** Okay and sir, you will talk about the clinkerisation unit addition till and once you finalize the same?
- Ashok Bhandari** Yes that is what Mr. Bangur-
- Jay Asher** Once, we will go through it will be at the Ras location itself?
- HM Bangur** Yeah, we are adding grinding capacity in and Ras location also we are, if it has to come immediately it will be in the Ras location only.
- Jay Asher** Okay and sir what are the tax incentives that we have for the Roorkee grinding unit?



- HM Bangur** Well, income tax and excise benefits both are there because of the hill state, so both put together it becomes a good investment.
- Jay Asher** Okay and sir what will be the quantum of benefit basically for...?
- HM Bangur** That is depended on the selling price. We expect to generate around 1.5 million ton of cement there. So the benefit is sales related.
- Jay Asher** Okay but that is the rated capacity of that plant?
- HM Bangur** That will be the rated capacity.
- Jay Asher** And sir Roorkee you expected to be commission by March or by June?
- HM Bangur** No by February or March.
- Jay Asher** Okay sir thanks very much best of luck.
- Moderator** Thank you Mr. Asher. The next question is from the line of Mr. Aditya Ahluwalia from ICICI Prudential Life Insurance, please go ahead.
- Aditya Ahluwalia** Hi, you mentioned that the industry would be effectively producing some 15-20 million tons against to similar demand growth and we know that incrementally capacity additions are most skewed towards the southern part of the country. So, could I get a sense of the industry's ability to export over capacity from one region to another because if the numbers pan out as per what you are saying, there might be regions in the north and east, which might face a lot of under capacity going ahead?
- HM Bangur** No, this does not happen this way. The material reaches the other area by displacement. Today we were going up to a particular point say in Central region, north will go to withdraw a little or push a little into Center, Center will move a little to the South or the vice-versa. So, the average lead distance will come down but the exposed risk happen the other way, it is by displacement. So, there should not be any shortage anywhere. The area of our influencing the market will reduce. South will come up to say Pune and the Central India will push more towards North, so that way the export import, the redistribution of every one changes. It does not change by one person selling to the Kerala, North plant or Kerala plant coming to North India that will not happen.
- Aditya Ahluwalia** But do you think that this displacement does happen like it will take in 1 or 2 quarters, it can happen?



- HM Bangur** Yes it is happening continuously. Wherever there is surplus the price corrections, the shortage situations obviously correct it. Like today there was some shortage situation in Eastern India, so from Central to East material has started doing more and South has come up to Center.
- Aditya Ahluwalia** So, would it be fair to say that in case, I mean I know we cannot predict prices, but would it be fair to say that whatever the price movement happens with the lag of 1 or 2 quarters, it will be same for the entire country?
- HM Bangur** In the past..... this is the ideal situation but somehow it does not happen that way, the price there because of the marketing other people does not have the marketing setup, so if you do not have the marketing setup and you want to sell there, you are not able to achieve the right price. So, the price does not move the material moves that is the dilemma or the prices will be unequal.
- Aditya Ahluwalia** So, like traditionally we have seen that prices of cement in Southern India have been higher than that in Northern India?
- HM Bangur** Because there was some shortage there and we did not have that marketing setup there because to create and setup your market it requires lot of expenses and lot of commitment. If you think that you will be vacating the market after 3 years, it is not worth setting up that market.
- Aditya Ahluwalia** Okay alright sir thank you.
- Moderator** Thank you Mr. Ahluwalia. The next question is from the line of Mr. Nitesh Jain from Enam Securities, please go ahead.
- Nitesh Jain** Basically, currently you have access power and you are setting up 150 megawatt power plant for merchant sales. So and looking at the balance sheet of the Shree in the cash position the accruals for next two years. Would you be looking at big ticket investment in the power sector?
- HM Bangur** Yes, we are looking and we have appointed some consultants to advice us about big ticket. But the big ticket will still be in the medium range not the supercritical power or so.
- Nitesh Jain** Okay and secondly on the cement front earlier say 6 months back you were looking at the Greenfield project in MP or the Chhattisgarh. So what is the status now even the demand-supply situation, would you be reviving those projects?



HM Bangur

Well, MP project has been almost dead because we have checked the limestone and the limestone were not found to be of that required quality. Chhattisgarh some land had been purchased and things are not going as per schedule. It is little slow. Land purchase is becoming more difficult, but at the same time we have purchased sufficient or sizable land in Karnataka. So, maybe after two years we can think of a cement unit there, otherwise in Ras we have sufficient land and limestone to cater our present need for 70 years, so one more plant there will reduce the life to 60 years or so, which is normally 1.5 times. Normally, the modern cement plants look at 40 years reserve that is sufficient to put up a cement unit.

Nitesh Jain

Okay and sir last question this current demand growth, which is being very strong and the reason being quoted is the rural and the government infra, sir what is your opinion when this kind of demand we can see going forward say in next 6 months, is it sustainable for next 6 months or 1 year what is your internal assessment?

HM Bangur

First of all apart from the other things which I have just add, rate was quite low, in last year April-June compare to the earlier year April-June, the demand was has not increased supposedly. So, normally it will be better, if you see the 3 years CAGR in this region because 1 year sometimes the monsoon comes, sometimes the flood comes, the transportation problem maybe there, so time to time small time variations are there in month to month. Overall, we are looking at 10% growth this year and this should be sustainable.

Nitesh Jain

Okay sir thanks, thanks for taking my questions.

Moderator

Thank you Mr. Jain. The next question is from the line of Mr. Pankaj Tibrewal from Principal Mutual Fund, please go ahead.

Pankaj Tibrewal

My question relates to one as a house, as a company, we have been cautious over last few quarters both on the pricing and the overall demand situation. Are we looking to change our view currently or still we are overall cautious on the pricing and overall demand front?

HM Bangur

We have been consistently proven wrong because we never expected such demand growth to be there but that was there for the whole industry. Secondly, when we talk of the surplus capacity it is not really to be surplus because cement industry always has to create capacity 6 months to 1 year ahead of the demand. So, that any demand comes that industry is able to beat it. Now, that type of capacity is there only for last 4 years or so there was a shortage situation, otherwise we definitely, the industry can work with 85% or so capacity utilization.



So, in the capacity addition side we will be quite aggressive in the future also and in the pricing side, as I was saying it is very difficult to know, but we are predicting or basing our internal cash flow on a quite conservative basis and then we would like to remain so. So, whatever the price is markets will throw on that we will take it, but for our all future projections it will be a lower price.

Pankaj Tibrewal

Okay, just to recap that when we look on the hindsight and when we do a review internally, what do you think surprised us? Was it a delay in supply coming in or was it the strong demand or a blend of both which took us by surprise?

HM Bangur

A mixed approach but delay in capacity addition was quite surprising. With the big players all around us, everybody is capable of them so the delay we could not think of this type of delay and on top of it the government give certain impetus to the economy, the biggest was the loan waiver and that really surprised us that increased the demand quite substantially.

Pankaj Tibrewal

Okay, so going forward if supply was one of these key factors, which surprised us with capacities, probably coming with a delay, do you think that can put pressure or I mean the incremental supply will be absorbed because of the delay and then that kind of a demand has been created already?

HM Bangur

Well, this year we expect as I said, I expect about 15 to 20 million extra production and that should be easily absorbed this year.

Pankaj Tibrewal

Okay and next year probably would be a new game altogether?

HM Bangur

Next year probably new sectors come in because the type of backlog we have on infrastructure in the budget the finance minister has said very positive things about the spending. So, again we are very surprised.

Pankaj Tibrewal

Okay and in your overall sales I can get that data from you, how has the trend changed versus what was infrastructure say a year back and what it is today, I mean it will be a difficult data, I mean people talk about...?

HM Bangur

No, I will be very frank such data is not available with the industry, so anything I say I can talk a little bit about my company's products mixes, but definitely not about the industry.

Pankaj Tibrewal

But from your company's perspective?

HM Bangur

Company perspective it is more on the housing, more on the individual. We have the three brands and our branding has done a beautiful job for us. So, individual house builders and retail customers are our focus area.



- Pankaj Tibrewal** Thank you and all the best for future sir.
- Moderator** Thank you Mr. Tibrewal. The next question is from the line of Mr. Ajit Motwani from Emkay Global, please go ahead.
- Ajit Motwani** Sir, just I would like to know on the depreciation you said, it will be about 545 crores, whereas what we remember earlier it was about 450 crore, I know lot of things depend on the timing of the capacity addition. So, has there been any change in the scheduling or the commissioning of the grinding unit which has sort of changed the number for the depreciation or any additional CAPEX has committed for the year?
- HM Bangur** Yes, additional CAPEX in power has been committed and that is and in power the depreciation rate is also higher that is basically the difference. Grinding capacities are as per schedule only.
- Ajit Motwani** Okay, so what has been the timing of the power CAPEX sir?
- HM Bangur** Power CAPEX out of 145 megawatts 50 will be added next year and 95 in this year and that is only changing the depreciation.
- Ajit Motwani** Okay that is it from my side sir.
- Moderator** Thank you Mr. Motwani. The next question is from the line of Ms. Rina Verma from Merrill Lynch, please go head.
- Rina Verma** Yeah hi, thank you very much for this call, just couple of small questions. One is on demand, please can you elaborate a bit on the linkage between the demand drivers in North and Central India, do you think there is much of a linkage. I am asking also because of the worries surrounding the declaration of most of UP has been drought-hit. Also on demand I have a question on North India, which is that from the CMA number it seems like the consumption in the region has not moved at all from November of last year to date, it has been at the same absolute level of 3.1 million tons, does that worry you, is it positive? How is this tying in with the price increases we have seen? And on pet coke if you can please share your forward outlook on pet coke in terms of where you see price is going? We have heard reports of pet coke price is being as low as \$40 but the number you gave seems to suggest more like \$90 to \$100? And finally, just last question on power, I know you have answered this several times but I am a bit confused by the numbers what is your current power capacity and what will it be by March 2010 and March 2011?
- HM Bangur** First I will start with the last question about power. Our current capacity is 115 megawatt.



- Rina Verma** 1-1-5?
- HM Bangur** Megawatt that is 115,000 units per hour, 115 megawatt and this will be increased by 90 megawatt this year and this year end our capacity will be 205 megawatt and by 1st half of next year it will be another 50 megawatt, so 255 megawatt will be the capacity which is in planned and executed by say September 2010.
- Rina Verma** And for the 90 megawatt your CAPEX is?
- HM Bangur** For the 90 megawatt our CAPEX is 435 crore?
- Rina Verma** And then for the 50 megawatts?
- HM Bangur** 50 megawatt it will be another 160 crores.
- Rina Verma** Okay sir thank you.
- HM Bangur** Right, now regarding the consumption on the North India figure, the consumption there is increasing but because of non-availability of capacity in Northern India more supply could not be done. So, there was a shortage of cement in UP and MP that has to be rushed from South India as I was saying by displacement. So, suddenly you will find consumption there. The numbers does not say the shortage was there or excess supply was there. But the demand is definitely there as soon as the material will become sufficiently available; you will see the growth in numbers. And regarding the demand situation and the monsoon, normally the monsoon will be affecting the next year or the next crop season, if the monsoon is bad this season, it will have its effect in January-March, because right now there is enough funds with everyone, it always has a delayed effect.
- Rina Verma** Okay.
- Moderator** Thank you Ms. Verma. The next question is from the line of Jaspreet Singh from AnandRathi, please go ahead.
- Jaspreet Singh** Most of it has been answered. Just one thing on the dispatch mix that we have currently, so if you could just give us some light as to how much goes into the various states in North and if at all in West?
- HM Bangur** Rajasthan has a total market size of 29 lakh tons or our market share in Rajasthan will be 23%, Delhi is 23%, Haryana is 23%, so this is what we are aiming at and Punjab 9%, Uttaranchal 14% and overall we are looking 17% to 17.25% of the North Indian market.
- Jaspreet Singh** Sure and which of these reasons would Shree be the number 1 player in the state?



- HM Bangur** No, Shree will not be the number one. In Rajasthan, Delhi, and Haryana it will be number one, but in Northern India it will be number 2, first will be Grasim and Ultratech.
- Jaspreet Singh** Sure and any of the dispatches happened in West say Maharashtra in the last quarter even if it was a small quantum?
- HM Bangur** Yes definitely, even in Maharashtra also, Chhattisgarh, Bihar, and Bengal everywhere some rakes were sold.
- Jaspreet Singh** Sure, that constitutes the balance 8%?
- HM Bangur** Yes.
- Jaspreet Singh** Alright sir that is it from my side, thank you so much.
- Moderator** Thank you Mr. Singh. The next follow up question is from the line of Mr. Ashok Nemani from Nomura Securities, please go ahead.
- Ashok Nemani** Hello, my question has been answered thank you.
- Moderator** Thank you Mr. Nemani. The next question is from the line of Mitul Mehta from Lucky Securities, please go ahead.
- Mitul Mehta** Yeah sir, most of my questions have been answered, just one question. Your current pet coke price for Shree Cement I mean is it \$90 or \$50, I mean what is it?
- HM Bangur** Right that question I mean.... it was \$40 earlier, right now the market price is around \$75 to \$85, but that is on port and what I was saying 4400 or more is after internal transportation, the custom duty and everything put together. So, there is no disconnected between the two.
- Mitul Mehta** Sir your voice is actually....
- HM Bangur** Right, again I will reply from \$75 in our landed price at the port and there the transportation cost and the port charges have to be included that put together net is around 4400.
- Mitul Mehta** Okay thank you sir.
- Moderator** Thank you Mr. Mehta. The next question is from the line of Mr. Ram Modi from Dolat Capital, please go ahead.



- Ram Modi** Just sir, what is your outlook on pet coke? We have been hearing news of thermal coal prices moving up. So do you feel that pet coke prices will also move up from here or no?
- HM Bangur** Yes energy prices will move in tandem but right now the European market and the world market is quite low, the cement demand there is quite low, so that pet coke prices are not going to increase substantially. Secondly, there is going to increase production in India itself, so pet coke prices will be roughly 25% or so lower than the Indian coal price.
- Ram Modi** 35% lower than-
- HM Bangur** 25% to 30% lower.
- Ram Modi** Okay 25% to 30% thanks a lot sir.
- Moderator** Thank you Mr. Modi. Ladies and gentlemen due to time constraint we will take the last two questions. The next question is from the line of Ms. Prachi Bane from Indsec Securities, please go ahead.
- Prachi Bane** Hi sir, sir regarding your coal requirement can I get the breakup between domestic and imported?
- HM Bangur** In the 1st quarter, we have taken more than 90% our pet coke from US, Gulf, and only 10% from the Indian market.
- Prachi Bane** Okay and sir in terms of pricing if you could give me the differential between two as such?
- HM Bangur** Pricing Indian pet coke is a little costlier than the imported one that is why we shifted and the price difference will be hardly \$5 or so.
- Prachi Bane** Okay thank you.
- Moderator** Thank you Ms. Bane. The next question is from the line of Jinal Joshi from Mata Securities, please go ahead.
- Jinal Joshi** Hello sir, congratulations on good numbers, sir give me a light that like in our Roorkee and Suratgarh plant we are getting any tax benefit, I mean in terms of sales tax exemption or something like that?



HM Bangur

Yes in Suratgarh, we will not be getting any tax benefit. It will be on the power plant itself. Our cost of fly ash will be lower there and it will supply to cater to the North Rajasthan and Punjab regions and in Roorkee there is tax benefit of excise and income tax both. If we sell in Uttaranchal there will be sales tax benefit too and the quantum of this will depend on the selling price.

Jinal Joshi

Okay thanks a lot sir.

Moderator

Thank you Ms. Joshi. Ladies and gentlemen that was the last question. I would now like to handover the conference back to the Mr. Jhaveri for final comments.

Mihir Jhaveri

We would like to thank all the participants on the call. Also many thanks to the Shree Cement management for their time on this earnings call. Thank you sir thanks a lot.

HM Bangur

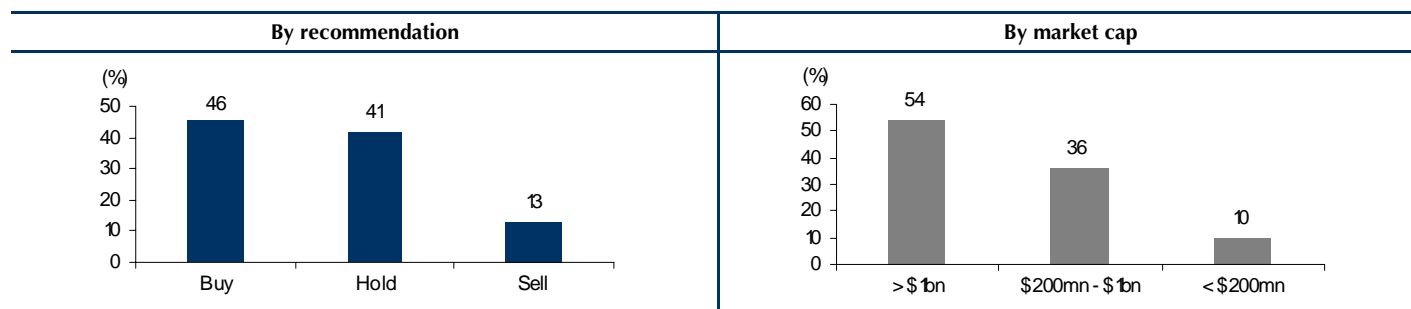
Thank you.

Moderator

Thank you Mr. Jhaveri, thank you gentlemen of the management. On behalf of Religare Capital Markets Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.



Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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