

Q4FY10 Post Result Conference Call Transcript

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Moderator

Ladies and gentlemen good afternoon and welcome to the Q4 Quarterly Earnings Call of Shree Cement hosted by Prabhudas Lilladher. As a reminder, all participants' will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today from Prabhudas Lilladher is Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Mr. Kamlesh Bagmar, Senior Analyst, Prabhudas Lilladher. I would now like to hand the conference over to Mr. Kamlesh Bagmar. Thank you and over to you sir.

Mr. Kamlesh Bagmar - Prabhudas Lilladher

Yeah, thank you. Good afternoon to all of you. On behalf of Prabhudas Lilladher, I welcome you all to the Post Result Conference Call of Shree Cement. Today we have with us Mr. H.M. Bangur, Managing Director; Mr. Prashant Bangur, Joint Executive President; and Mr. Ashok Bhandari, Chief Financial Officer of the company. Now I would hand over the call to Mr. H.M. Bangur for his opening remarks on the results. And later on we would take on the Q&A Session. Over to you sir.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yeah. Dear friends, thank you all for participating. Company results are published. Company has two segments, cement and power. Cement profitability is continuously going down and will continue for some time to come. Volume growth will not be able to compensate for the falling margins. Last year including clinker, volumes were 10 million tons and cement business generated EBIDTA of Rs.1, 400 cr. This year volumes are expected to be 11 million tons with EBIDTA of Rs.1, 100 Cr only. And in power division, profit per unit of power sold is also expected to be lower, but the volume multiplier would generate more profit for this division. Last year we sold 265 million units with an EBIDTA of Rs.110 cr. This year on an EBIDTA of Rs.3 per unit, total Rs.285 Cr is being expected as volumes are expected to be roughly 950 million units. Rs.3 per unit seems to be high, but 46 mega watt of waste heat recovery power units are now in operation. This should generate roughly 10, 00,000 units of power per day. Power production in this company's division should be less than 50 paise per unit and fuel cost is zero. So a profit of Rs.3 per unit is not aggressive estimation. Rs.65 Cr of other operating and investment income should make a total EBIDTA of roughly 1,450 Cr or so. This year our cash generation is 1,250 Cr and in the FY10 -11 it is expected to be around 1,200 Cr because of power income and less taxes. Now there is a 300 mega watt of power plant which is in the pipeline and it was expected to be completed in 37 months that is by December 2011 which is achieved in India. In Japan, some of the plants have been completed in 22 months. I am glad to say that our plant now is expected to be completed in 21 months that is by June 2011, 6 months ahead of original schedule. Chances of completing the full power plant in the current financial year is improbable but is not yet impossible. If everything goes well, plants can be completed in 18 months also, which will be a world record. Present progress of the plant gives some hope that it can be achieved. Depreciation of Rs.500 Cr and taxes of Rs.150 cr

is expected for the year based on power plant to be completed in next year. Completion of power plant will increase depreciation by another 450 cr and reduce tax substantially.

Regarding cement division, now challenge has shifted from production to marketing. Company is expecting 10% volume growth in the competitive market. We expect our growth to be 25% more than the industry average, which I assume will be about 8%. If the industry grows better, we have enough production capacity to take further market share. In cement division, a new line of 1.5 million tons should be operational by November this year. After that our capacity will become 13.5 million tons. This capacity should be enough to serve our market with normal growth. We will need more capacity to maintain our growth in the FY 12 - 13. For that capacity addition work can start in third or fourth quarter this year. Thanks.

Moderator

Excuse me sir, this is the operator. Would you like to take questions at this moment?

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, I am ready.

Moderator

Thank you. Ladies and gentlemen, we will now begin the Question and Answer Session. At this time if you would like to ask a question, kindly press "*" then "1" on your touchtone phone. Please use only handsets while asking a question. The first question is from the line of Amit Rake from Crisil. Please go ahead.

Mr. Amit Rake - Crisil

Yeah. Thank you sir. This is with regard to EBIDTA breakup for the both segment for this quarter, cement and power.

Mr. H.M. Bangur - Managing Director, Shree Cement

For the quarter?

Mr. Amit Rake - Crisil

Yes.

Mr. H.M. Bangur - Managing Director, Shree Cement

For this quarter, cement EBIDTA is 305 cr.

Mr. Amit Rake - Crisil

Yeah.

Mr. H.M. Bangur - Managing Director, Shree Cement

Power EBIDTA is 22 cr and other income is 4 cr. With some rounding off it will be around 330 cr.

Mr. Amit Rake - Crisil

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

331 cr.

Mr. Amit Rake - Crisil

Okay. And what would be the annual number again for this segment?

Mr. H.M. Bangur - Managing Director, Shree Cement

Annual number is cement EBITDA 1,401 cr, power EBITDA 112 cr, and other income 65 Cr. All put together 1,578 cr.

Mr. Amit Rake - Crisil

Okay. And sir one more, the reason for decline in power for this quarter power revenue if YOY there is a decline, is there any specific reason for it?

Mr. H.M. Bangur - Managing Director, Shree Cement

Our new plant has started for the grinding unit thereby increasing the more cement production. So our self consumption for power has increased leading to lower volume sale in the market.

Mr. Amit Rake - Crisil

Okay. So the total sale for this year was 260 million units?

Mr. H.M. Bangur - Managing Director, Shree Cement

259 yes 259 million units.

Mr. Amit Rake - Crisil

Okay. That's great. And sir just want to check on how do you see the demand supply scenario in North basically looking at ...

Mr. H.M. Bangur - Managing Director, Shree Cement

As I said in my opening remarks, enough capacity has now been created and there will be surplus cement. Production bottle neck will not be there. This scenario should continue for quite some time.

Mr. Amit Rake - Crisil

Okay. And how is the price scenario in that case?

Mr. H.M. Bangur - Managing Director, Shree Cement

Price in the commodity market is very difficult to say. And that's why I am taking a Rs.400 hit in the margin, because if the prices go down by Rs.550 or so, partially it will be excise duty. Partially it will be sales tax. And so if Rs.25 to Rs.30 a bag is reduced, then also company will have roughly Rs.400 lower realization. This is what I have taken.

Mr. Amit Rake - Crisil

Okay. That's helpful sir. Regarding the cost which we have included this quarter, the state incentives, going forward how do you look at this? Will the incentives will be renewed or?

Mr. H.M. Bangur - Managing Director, Shree Cement

No. After that, that is per your, we introduced this policy of giving the incentives. Our new plant which is going to come in November is clear for this incentive. So now we have reintroduced, but the old things will have to be cleared by judiciary whether Rajasthan Government or they have to give the continue with the earlier scheme. This is all subjudice. We cannot say anything about it.

Mr. Amit Rake - Crisil

Okay. So basically on new plants you will be having incentives but on old you will continue ...

Mr. H.M. Bangur - Managing Director, Shree Cement

More so which is the at present they have cancelled the incentives again even on the new units but just not very clear what will happen to the old units.

Mr. Amit Rake - Crisil

Okay. And finally, what is our Capex guidance for FY11-12?

Mr. H.M. Bangur - Managing Director, Shree Cement

Capex guidance for FY11-12 is around 1,000 cr.

Mr. Amit Rake - Crisil

1,000 are cumulatively?

Mr. H.M. Bangur - Managing Director, Shree Cement

Cumulatively it is the 1,000 cr in FY11-12.

Mr. Amit Rake - Crisil

Yeah.

Mr. H.M. Bangur - Managing Director, Shree Cement

In power as well as this year and the ongoing cement which I was saying this will be completed by November. So two things put together should be around 1,000 Cr.

Mr. Amit Rake - Crisil

Okay. And what would be FY11-12 estimate in that case? 11-12 break up.

Mr. H.M. Bangur - Managing Director, Shree Cement

FY11, I was giving you the FY10-11 breakup.

Mr. Amit Rake - Crisil

Okay sir this is FY11 and what about FY12 then?

Mr. H.M. Bangur - Managing Director, Shree Cement

Just a minute. The FY10-11 breakup is 1,000 Cr.

Mr. Amit Rake - Crisil

Yes sir.

Mr. H.M. Bangur - Managing Director, Shree Cement

FY11-12 is too early. I am not ready with the FY11-12 whatever will be the new plants which will be coming.

Mr. Amit Rake - Crisil

Okay. That's helpful. Thank you.

Moderator

Thank you Mr. Rake. Participants who wish to ask a question may kindly press "*" "1" The next question is from the line of Ajay Vora from ENAM AMC. Please go ahead.

Mr. Ajay Vora - Enam AMC

Good afternoon sir. Sir, just a housekeeping question. What was the total segment sales volume number in Q4 and full year FY 10?

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, for Q4 it is 26 lakh tons only cement.

Mr. Ajay Vora - Enam AMC

No, both put together cement and clinker both.

Mr. H.M. Bangur - Managing Director, Shree Cement

Both put together it will be 27.39 lakh tons for cement and clinker put together.

Mr. Ajay Vora - Enam AMC

Okay. And for full year?

Mr. H.M. Bangur - Managing Director, Shree Cement

Full year it is 10.2 million tons.

Mr. Ajay Vora - Enam AMC

10.2 million tons. And sir for power similarly, in Q4 in FY 10?

Mr. H.M. Bangur - Managing Director, Shree Cement

In power, just a minute. For full year it is 264 million units and 77.8 million units for Q4.

Mr. Ajay Vora - Enam AMC

Okay. And sir this number you are saying for FY 11 it will be 95 Cr units.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, 95 Cr units.

Mr. Ajay Vora - Enam AMC

Okay. And the cement plus clinker volume will be somewhere around 11 million tons.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, that's what I said.

Mr. Ajay Vora - Enam AMC

Okay. Thank you very much sir.

Mr. H.M. Bangur - Managing Director, Shree Cement

Thank you.

Moderator

Thank you Mr. Vora. Participants who wish to ask a question may kindly press "*" "1". The next question is from the line of Mihir Zaveri from Religare Capital Markets. Please go ahead.

Mr. Mihir Zaveri - Religare Capital Markets

Yeah. Sir, I just wanted to ask some book keeping questions, the results. Basically, I wanted to know more about why is the freight cost this quarter higher? Are there any extraordinary elements in that freight cost and by how much? And secondly if you can touch upon the other extraordinary expenses which you have accounted this quarter. Apart from that sir our depreciation also has increased by 1.2 billion. What we had suggested earlier of around 450 Cr for the full year. So these are a few of the questions which in regards with the results can you throw some light sir?

Mr. H.M. Bangur - Managing Director, Shree Cement

Right. The freight cost is definitely higher by around 90 cr because the realization when we see, the average cement realization is higher by Rs.150 or so. Whereas the industry average realization is not at all higher. So our sales have been shifted more from non paid where we were selling ex factory to ex market sales. In the process, our freight cost has increased and similarly realization has increased. So this has also resulted in lower percentage profit, because both the profit numbers will remain same, but the sales have increased. So sales has been increased because of the absolute freight will be definitely increasing because of the ex depot sale. Now second thing is about the depreciation. In the very beginning of the year we suggested a depreciation of 545 Cr. This was maintained in the second quarter. But in the third quarter we thought that power plant will not be completed. So we took the depreciation to 450 Cr. But fortunately it was completed. So now the resulting depreciation is 577 Cr.

Mr. Mihir Zaveri - Religare Capital Markets

Okay sir. And so what will be the depreciation guidance for this year FY11 and FY12?

Mr. H.M. Bangur - Managing Director, Shree Cement

This year, the depreciation I just said in the opening is expected to be around 500 Cr if power plant is not completed. The 300 mega watt power plant very small chances that it can be completed this year also. Then this will be 450 Cr extra.

Mr. Mihir Zaveri - Religare Capital Markets

450 Cr.

Mr. H.M. Bangur - Managing Director, Shree Cement

So either 500 Cr or something like 950 Cr.

Mr. Mihir Zaveri - Religare Capital Markets

500 Cr or 950 Cr.

Mr. H.M. Bangur - Managing Director, Shree Cement

We will be clear about this by October or so.

Mr. Mihir Zaveri - Religare Capital Markets

Okay. And sir this freight, does it include some one-time expense which you have accounted in this quarter or it is purely because of the sales you said the change in the sales from non trade to ...

Mr. H.M. Bangur - Managing Director, Shree Cement

This freight is totally dependent on the place of sale. And this is not a one time charge what we are talking about. It is an if we again sell lot of non trade, the freight will come down. But total realization and freight the differential which is important for EBITDA will be almost the same.

Mr. Mihir Zaveri - Religare Capital Markets

Okay. And sir can I have your debt level and the cash level currently?

Mr. H.M. Bangur - Managing Director, Shree Cement

Currently, overall debt position zero. Our total debt is 1,943 Cr. This is including secured, unsecured, cash credit all put together.

Mr. Mihir Zaveri - Religare Capital Markets

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

Against this we have a cash and cash equivalent of 2,059 Cr mostly in NABARD and bonds.

Mr. Mihir Zaveri - Religare Capital Markets

Okay sir. Thanks a lot. I will be in queue for another question sir. Thanks for taking my question.

Moderator

Thank you Mr. Zaveri. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Mr. Ashish Jain - Morgan Stanley

Good afternoon everyone. Sir, in the opening remarks you said that you know demand growth in the industry you are looking at something like 8%. Could you throw some light on you know it looks a bit on the lower side. So what's really changed in your view or you know so if you can just throw some light on that.

Mr. H.M. Bangur - Managing Director, Shree Cement

Because of the total melt down initially we thought of 10% to 11% if the global economy we were not attached to it. Right now it is about 1.5 times the GDP growth cement. But because of the Europe decrease and the global weak scenario it may be possible that the growth rate comes down. If the growth rate is good, we expect to be around 11%, 12% depending on the scenario and normally I am little conservative in all of my estimation. So I have expected only 10% growth. It can be a little higher also.

Mr. Ashish Jain - Morgan Stanley

Okay. And sir on pricing you said that you know prices could decline by Rs.20, Rs.25. That is with the growth rate assumption of 8% I believe.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes.

Mr. Ashish Jain - Morgan Stanley

Okay. And sir so this Rs.20 decline as you are saying is F11 average versus F10.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, average versus FY9-10 to FY10-11.

Mr. Ashish Jain - Morgan Stanley

Okay. And sir just one last question is if you assume that you know growth rate say comes out at around 10% to 11%, in that scenario what would be your pricing outlook be?

Mr. H.M. Bangur - Managing Director, Shree Cement

Just a minute. Now the pricing if the capacity is more, I am not expecting such steep fall. But for estimation purposes even at this fall I am as I said just now it is a conservative that 1,100 Cr can be expected. If the market is better, globally in a commodity market has any idea about the future rates. It is anybody's guess rate whether 5% production is better or demand is better, the prices can fall even more or even less. So all this is market scenario driven. I will just not venture in to guessing the future prices. I can be talking more confidently about volumes.

Mr. Ashish Jain - Morgan Stanley

Okay sir. Thank you very much.

Moderator

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

Mr. Vivek Maheshwari - CLSA

Hi sir. Thank you for taking my question.

Mr. H.M. Bangur - Managing Director, Shree Cement

Hi.

Mr. Vivek Maheshwari - CLSA

Sir, my first question is your realization in this quarter was around Rs.170 a bag, right?

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, no, not Rs.170. Rs.2, 400 a ton.

Mr. Vivek Maheshwari - CLSA

Sure. I mean the prices kept rising during fourth quarter. So I presume this will only capture the price hike impact you know partially. So where are we on the realization as we speak if you can give some idea?

Mr. H.M. Bangur - Managing Director, Shree Cement

First of all, in the fourth quarter prices were not rising. They were almost constant. And if you see the losses in other players, the prices have come down by 2% to 4%. Our price rise is there because of our marketing and correspondingly freight increase is there. So our net realization after rate that is our ex-factory realization will be almost the same.

Mr. Vivek Maheshwari - CLSA

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

So we must not go for the higher price realization scenario. And these prices are continuously softening. I am not very bullish along which rate the prices will soften will not be known.

Mr. Vivek Maheshwari - CLSA

Okay. You are saying but worst case would be Rs.20, Rs.25, right?

Mr. H.M. Bangur - Managing Director, Shree Cement

This is my worst case imagination. It is very less as everybody is free to imagine his own way.

Mr. Vivek Maheshwari - CLSA

Right. But sir only thing there is you know I mean if you are saying 1,100 cr of EBITDA and 11 million tons of volume, it implies EBITDA per ton of Rs.1,000, right?

Mr. H.M. Bangur - Managing Director, Shree Cement

Right. This is what I am, I mean at least in my model I am working on this.

Mr. Vivek Maheshwari - CLSA

Sure. But sir only thing is I mean if we look at FY 10 then obviously you benefited on account of the lowest Pet coke prices. Now Pet coke prices have risen sequentially. In fact, in every quarter we have seen some increase in Pet coke prices. So what is the outlook there on Pet coke prices?

Mr. H.M. Bangur - Managing Director, Shree Cement

Pet coke prices I think have seen, in the earlier quarter because of the American melt down, the production there was low. And Europe was consuming much better.

Mr. Vivek Maheshwari - CLSA

Right.

Mr. H.M. Bangur - Managing Director, Shree Cement

And now the American economy is better, the diesel consumption is there. So Pet coke can produce. And in the consumption side, the Europe which was a major consuming center the consumption has come down. So overall softening will be there. Indian Pet coke prices are more guided not by demand supply but by the international rates. So when international rates will come down naturally Indian rates are expected to come down. So I don't expect any rise compared to last year figuring the whole year into account.

Mr. Vivek Maheshwari - CLSA

Last year first thing is fourth quarter average Pet coke prices would be how much sir?

Mr. H.M. Bangur - Managing Director, Shree Cement

Fourth quarter Pet coke prices is Rs.5,300.

Mr. Vivek Maheshwari - CLSA

Rs.5,300. And you are saying the full year average would be around 4,500 or there about?

Mr. H.M. Bangur - Managing Director, Shree Cement

Full year wise 4,700.

Mr. Vivek Maheshwari - CLSA

4,000 so you are saying that most likely in FY 11 the Pet coke prices should be in the range of 4,700.

Mr. H.M. Bangur - Managing Director, Shree Cement

I think so.

Mr. Vivek Maheshwari - CLSA

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

Because the peak it is the peak. And it should continuously come down.

Mr. Vivek Maheshwari - CLSA

It should come down. Understood. Sorry, I missed your power you know capacity time line. The next 300 mega watts you said would commission by March. Is that correct?

Mr. H.M. Bangur - Managing Director, Shree Cement

No. I said now we are confident to complete it by June 2011 and if everything goes well then 18 months is unheard of, but if there is a possibility that it can be completed by February, but some precision clockwise precision what should be there normally is not there so we don't rule out that it is improbable by October or so. November has to be more precise. We able to know whether we will be able to complete it. Because some delivery somewhere anybody books up the whole project is delayed.

Mr. Vivek Maheshwari - CLSA

Okay. And this 300 I mean earlier you were saying 150 you know there was different time line. This time around you are saying 300 mega watt at one go will be in June as of now.

Mr. H.M. Bangur - Managing Director, Shree Cement

There will be a difference of about 1 to 1.5 months between the two plants.

Mr. Vivek Maheshwari - CLSA

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

Now as it is such a narrow difference, you may say I have said the same timing.

Mr. Vivek Maheshwari - CLSA

Sure. So this will be June both plants put together, right?

Mr. H.M. Bangur - Managing Director, Shree Cement

A 1.5 months difference will be there.

Mr. Vivek Maheshwari - CLSA

Sure and the fuel we have we tied up you know fuel for the you know because now that we will need higher amount of fuel given the 300 mega watts or what is the you know arrangement that you are planning for fuel?

Mr. H.M. Bangur - Managing Director, Shree Cement

No. Fuel we have not tied up at all. Neither have we tied up the sale.

Mr. Vivek Maheshwari - CLSA

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

I am taking it more as a converter.

Mr. Vivek Maheshwari - CLSA

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

So that we convert the fuel into power. And we should be getting our margin. The sales are also not tied up at all. Neither fuel.

Mr. Vivek Maheshwari - CLSA

Okay. And lastly sir if you can you know elaborate on this you I mean you have just mentioned in the media that you are planning 750 cr kind of an investment on solar power. So if you can share some info?

Mr. H.M. Bangur - Managing Director, Shree Cement

It is too early. Solar power everywhere 50 megawatt or so plants and the government issued Rs.15 or Rs.18 profit is there. So we are also in the pipeline applied for all this. It is too early. They are allocating us. We have applied for it and waiting for our things to turn up. Media is little faster than reality.

Mr. Vivek Maheshwari - CLSA

Okay, okay sir. Thank you so much.

Moderator

Thank you Mr. Maheshwari. Participants who wish to ask a question may kindly press "*" "1". We have a follow on question from the line of Mihir Zaveri from Religare Capital Markets. Please go ahead.

Mr. Mihir Zaveri - Religare Capital Markets

Sir just wanted to know what the estimate for power sales in FY 12 is now that we have earlier completion of the 300 mega watts power plant. Any guidance of that?

Mr. H.M. Bangur - Managing Director, Shree Cement

No. It totally depends on when it will be completed. But if it is completed in this year, then it will be 278 Cr units.

Mr. Mihir Zaveri - Religare Capital Markets

Okay. And if it's in June then probably you can say.

Mr. H.M. Bangur - Managing Director, Shree Cement

Because till it is completed it is very difficult to give any number. For the full year it was easy to say. But then in any in-between time when it will be completed we don't know.

Mr. Mihir Zaveri - Religare Capital Markets

Okay. Fine sir. Thanks a lot sir.

Moderator

Thank you. The next question is from the line of Neeraj Agarwal from Tata Capital. Please go ahead.

Mr. Neeraj Agarwal - Tata Capital

Yeah, good afternoon sir. This is regarding the Rajasthan Government incentive scheme. The reversal we have taken on account of the wages and interest to the tune of 43 Cr. Does that relate only to FY10 or does that include the retrospective effect that you have taken on earlier years also?

Mr. H.M. Bangur - Managing Director, Shree Cement

This is for the earlier year. FY10 we had already taken it into our profit and loss account day to day. So there is no portion of it. We have already accounted for it in 10-11 and it is all related to the earlier years.

Mr. Neeraj Agarwal - Tata Capital

Okay so going forward there would be no such further provisioning happening.

Mr. H.M. Bangur - Managing Director, Shree Cement

No. There is no further provisioning it has come because all has been provided.

Mr. Neeraj Agarwal - Tata Capital

Okay and the exceptional item of 43 cr that we have shown what exactly the - does is that also relate to the same scheme?

Mr. H.M. Bangur - Managing Director, Shree Cement

Right. 43 Cr it is partially this and when there is some entry tax which is in dispute. This is an all India phenomenon. Not so it is also pending. And we have provided for it. This is also one time. That is whether our new units which we had put will be eligible for entry tax benefit for some years or not. Earlier it was said that government has given us the license for the certificate that you're all input coming in to the company will be entry tax free. Now they say there is nothing. It may not be at least they are contesting that this is not eligible though as per scheme it is available. You must not get it. Now this is again the judiciary has to settle it.

Mr. Neeraj Agarwal - Tata Capital

Okay. So what I am trying to get is going forward we will have no such kind of?

Mr. H.M. Bangur - Managing Director, Shree Cement

No, no. This is all one time entry. And for this year whatever was there has already been provided into our books. So all this entry is the last of the lot.

Mr. Neeraj Agarwal - Tata Capital

Okay and sir lastly what would be your effective tax rate going forward?

Mr. H.M. Bangur - Managing Director, Shree Cement

Effective tax rate we will I have not understood. It depends on the how much depreciation we will be charging in the coming year. If the depreciation is there then there may not be any tax but we may have to pay that.

Mr. Neeraj Agarwal - Tata Capital

This year providing for depreciation of 500 Cr that is assuming you are not able to complete the ...

Mr. H.M. Bangur - Managing Director, Shree Cement

Right. If we are providing the, then approximately 150 Cr will be the tax.

Mr. Neeraj Agarwal - Tata Capital

Okay sir. Thank you so much.

Moderator

Thank you. The next question is from the line of Ajit Motwani from Emkay Global. Please go ahead.

Mr. Ajit Motwani - Emkay Global

My question is related to the 34 cr interest that has been reversed on account of these charges on promotion scheme. So interest for the quarter is about 50 cr. So if you adjust the 34 cr we are at about 16 cr.

Mr. H.M. Bangur - Managing Director, Shree Cement

Right, you are right.

Mr. Ajit Motwani - Emkay Global

So does that mean that on a quarterly basis or on a run rate basis the interest would be 16 cr plus whatever debt you take.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, you are right, exactly right. Your understanding of the situation is exactly the same.

Mr. Ajit Motwani - Emkay Global

Also this 43.67 Cr of you know reversal of tax concession okay, so that's also one time.

Mr. H.M. Bangur - Managing Director, Shree Cement

That is also one time.

Mr. Ajit Motwani - Emkay Global

Okay so that will not appear in any quarter.

Mr. H.M. Bangur - Managing Director, Shree Cement

No, this should also we could have easily done by saying as a contingent liability. But as the balance sheet has zero contingent liabilities we had to decide whether to put it in the accounts or with a note of contingent liability without providing it. So we thought the other things to be better. There is zero contingent liability after this.

Mr. Ajit Motwani - Emkay Global

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

We have not taxed. This entry has not given us any tax benefit as it is a government due and if you don't pay then there is no tax benefit. It is purely an accounting entry.

Mr. Ajit Motwani - Emkay Global

Sure. And in your initial remarks you said that you are building in a profit of about Rs.3 per unit on power.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes.

Mr. Ajit Motwani - Emkay Global

So can you just get some light on you know what sort of realization per unit you are building in?

Mr. H.M. Bangur - Managing Director, Shree Cement

I am thinking our average cost of production of power will be around Rs.2.5 may be a little lower. And our selling rate I am expecting to be Rs.5.5. And this is against the background that last year we got an average realization of Rs.6.5. And in April and until now today for first 45 days of the current year our realization is Rs.6.50. Rs.6.42 is our realization for the 1.5 months.

Mr. Ajit Motwani - Emkay Global

Okay. And in terms of you know clinker realization, what was the clinker realization in this quarter though the you know volumes are pretty small?

Mr. H.M. Bangur - Managing Director, Shree Cement

The clinker realization will be around Rs.2,400 to 2,500. And this is taken on pre sales.

Mr. Ajit Motwani - Emkay Global

_ Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yeah.

Mr. Ajit Motwani - Emkay Global

That's it from my side sir. Thanks a lot.

Mr. H.M. Bangur - Managing Director, Shree Cement

Thank you.

Moderator

Thank you Mr. Motwani. The next question is from the line of Jay Asher from JM Financial. Please go ahead.

Mr. Jay Asher - JM Financial

Good afternoon sir. Sir just wanted to know what are the cash and liquid investments on the books.

Mr. H.M. Bangur - Managing Director, Shree Cement

The total as I just said, we have cash and cash equivalent of 2,059 Cr. Out of that fixed deposit is 460 Cr and usual plans and other all these are investments.

Mr. Jay Asher - JM Financial

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

In mutual funds.

Mr. Jay Asher - JM Financial

Okay. So most of them are in mutual funds.

Mr. H.M. Bangur - Managing Director, Shree Cement

Total. There are zero equity funds.

Mr. Jay Asher - JM Financial

Okay. And sir what is the gross debt on the books and can you please give the breakup of the gross debt?

Mr. H.M. Bangur - Managing Director, Shree Cement

Gross debt is 1,943 Cr. Out of that 1,615 is secured loan.

Mr. Jay Asher - JM Financial

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

154 Cr is the unsecured loan and cash credit is 173 Cr.

Mr. Jay Asher - JM Financial

Okay. And sir I just missed your guidance on the tax rate. Sir if I understood right, if you said your FY 11 tax without power plant commissioning at around 500 Cr. What will be the approximate tax rate that you are building currently without the power plant commissioning?

Mr. H.M. Bangur - Managing Director, Shree Cement

Without the power plant commissioning the tax should be around 150 Cr.

Mr. Jay Asher - JM Financial

Okay. This is the tax outflow. Cash outflow.

Mr. H.M. Bangur - Managing Director, Shree Cement

This is the tax outflow.

Mr. Jay Asher - JM Financial

Okay but provision on your books will also be the same?

Mr. H.M. Bangur - Managing Director, Shree Cement

Normally it should be the same.

Mr. Jay Asher - JM Financial

Okay. And sir just wanted to know from you since Shree Cement has been planning expansion in other states as well, Karnataka and other, for which land acquisition was going on so if you could you know throw some light on that and how are you seeing progress for it?

Mr. H.M. Bangur - Managing Director, Shree Cement

Land acquisition in Karnataka is about 90% to 95% complete. And in next 6 months we expect it to be completed.

Mr. Jay Asher - JM Financial

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

So in 6 months we should be able to go there and we can choose our time when we should start the plant there.

Mr. Jay Asher - JM Financial

Okay and any other sites that you are working on?

Mr. H.M. Bangur - Managing Director, Shree Cement

We are working on few sites, but as the progress is very small it is not worth mentioning. 5 to 10% we are working on Chattisgarh and some site in Rajasthan, Navalghar. But the progress there is not yet good enough to mention.

Mr. H.M. Bangur - Managing Director, Shree Cement

In 2 years or so from 10%, 15% land has been purchased some licenses are there.

Mr. Jay Asher - JM Financial

Okay. And sir just wanted to also know from you since as matter of capital location strategy, the cash flow that she is generating what will be capital allocation strategy from board side you know to power to cement.

Mr. H.M. Bangur - Managing Director, Shree Cement

For cement as I was saying, now the challenge is in marketing and not in creating capacity. So we will keep it we will like to work on 85% capacity utilization or so by creating enough capacity to keep some of the plants idle and ready to be used, but initial we may not make. So for that you have to create capacity which should hit the market in FY12-13.

So even if we start new unit by the turn of fourth quarter this year, we should be able to complete the unit well in time. So then so about 800 to 1,000 Cr will be our future expenditure in the next year in cement. And then we are looking at the further growth in power and looking at the size.

Mr. Jay Asher - JM Financial

Okay. But sir, will it continue to be like that that more than two third of your future capital future cash flow generation will go to cement and about one third to power. Is it fair to assume it that way? Strategy goes.

Mr. H.M. Bangur - Managing Director, Shree Cement

No. As far as the strategy goes, cement demand is satiable and not that high. When the power has unlimited demand and our future cash flow will be divided equally between the two sectors.

Mr. Jay Asher - JM Financial

Okay. So as and when you are able to incubate projects and you are at a right stage, you will announce a project in any one of the segments.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, but mostly it will be power which will be our priority. Cement will be there, but next 2 to 3 years it will be a competitive market. We will look to lower in cement for next 2 years. Then we will pick up again.

Mr. Jay Asher - JM Financial

Okay. Thanks a lot sir for taking the question.

Moderator

Thank you Mr. Asher. The next question is from the line of Aditya Khimani from HSBC. Please go ahead.

Mr. Aditya Khimani - HSBC

Good afternoon sir.

Mr. H.M. Bangur - Managing Director, Shree Cement

Good afternoon.

Mr. Aditya Khimani - HSBC

Sir on a 3 to 5 year basis what would be your aspiration on the power side in terms of capacity and would you be working on other sites? Could you throw some more light on that sir?

Mr. H.M. Bangur - Managing Director, Shree Cement

In 3 to 5 years at least for cement we have thought of doubling our capacity from here in next 5 years.

Mr. Aditya Khimani - HSBC

For cement?

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, cement.

Mr. Aditya Khimani - HSBC

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

And stay there because 5 years is 14% CAGR and this is how we will like to grow.

Mr. Aditya Khimani - HSBC

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

So from right now 12 million tons to 25 million tons in 6 years or so is our aim.

Mr. Aditya Khimani - HSBC

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

And in power we should be more than doubling it in coming 6 years. Coming 6 years power after the 300 right now it is 265 mega watts. We will like to be about 1,200 mega watts next year.

Mr. Aditya Khimani - HSBC

Okay. But would we be working on other sites right now?

Mr. H.M. Bangur - Managing Director, Shree Cement

Of course, we have to work on other sites.

Mr. Aditya Khimani - HSBC

Okay. But sir for like 300 mega watts which is coming up we haven't applied for any coal linkage. What is the strategy over there?

Mr. H.M. Bangur - Managing Director, Shree Cement

Coal linkage applied but application doesn't mean anything till it is rented. So we are not mentioning it very boldly. Application has been made. But it is not a India has fuel shortage. And it is not likely that we will be getting it very early. But as I was saying power from fuel to power there will be always converter's margin which should be available. And in North India because of the grid North Indian rates are higher as the cost of generation there will be a little higher always. When the cost of generation will be little higher because of the freight of coal. But it is more than compensated by better rates in the grid compared to all India grid Northern grid is having better rates. So it is more than compensated.

Mr. Aditya Khimani - HSBC

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

When we say the power rate, we have to pay higher cost as well as higher rate. Both put together, the margins will be almost the same.

Mr. Aditya Khimani - HSBC

Okay. So you intend to buy from e-auctions?

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes. We intend to buy from e-auction, but if any competitions are the foreign fuel whether it is from South Africa or US Petroleum Coke or Indonesia, our boilers are versatile. We can use any coal to the best coal. All coals are possible. So we are continuously monitoring heat rate and the rate, fuel rate. And continuously changing the production we have from the fuel supply sources.

Mr. Aditya Khimani - HSBC

Okay. But are we also looking at some kind of coal mine acquisition in Indonesia or some other country?

Mr. H.M. Bangur - Managing Director, Shree Cement

No. Coal mine acquisition we are not actively pursuing right now.

Mr. Aditya Khimani - HSBC

Okay. Secondly sir, on the Karnataka plant how big will that plant be?

Mr. H.M. Bangur - Managing Director, Shree Cement

Right now we are taking land and the land and the mines there will be able to support 5 million tons of clinker. Now how much we will be putting will depend on the market. So we are building enough potential to put 5 million ton unit there.

Mr. Aditya Khimani - HSBC

Have you got the limestone reserve?

Mr. H.M. Bangur - Managing Director, Shree Cement

Yeah. We have got enough limestone to last for 50 years this kind of capacity.

Mr. Aditya Khimani - HSBC

50 years on 5 million tons annual clinker production.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes. This is the type of limestone which we are having.

Mr. Aditya Khimani - HSBC

Okay. So like in the next 6 months you will be assessing the market and then placing equipment orders.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes.

Mr. Aditya Khimani - HSBC

Okay. And last question like you mentioned that Q4 realization was around Rs.3,400 per ton. What would be the current realization?

Mr. H.M. Bangur - Managing Director, Shree Cement

Current realization may be about Rs.70 to Rs.80 lower.

Mr. Aditya Khimani - HSBC

Okay. On a net basis?

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes, on the net basis only.

Mr. Aditya Khimani - HSBC

Okay. Rs.70 to Rs.80 lower.

Mr. H.M. Bangur - Managing Director, Shree Cement

Right.

Mr. Aditya Khimani - HSBC

But then sir like I think our Q4 EBITDA per ton was somewhere around Rs.1, 110 excluding the cement EBITDA per ton.

Mr. H.M. Bangur - Managing Director, Shree Cement

Right.

Mr. Aditya Khimani - HSBC

So in case Rs.70 to Rs.80 lower right now cost assuming it would have remained same which would mean that we would be making an EBITDA per ton somewhere around 1,020-1,030 levels currently.

Mr. H.M. Bangur - Managing Director, Shree Cement

No. But point is now we are seeing that the cost is increasing. We are seeing the fuel cost and other things, but we have changed our product mix and now our PTC cement percentage is very high. Our conversion ratio from clinker to cement has increased. Therefore we should be able even with higher cost in the system in the economy we will be able to contain our cost per ton of cement because of higher conversion sector both by us having now we are able to grind our clinker finer and with additional _ we are able to give a better quality of cement in the market. Our costing should take care our technological team should take care of the cost portion.

Mr. Aditya Khimani - HSBC

Okay. But sir you mentioned like assuming that prices fall by Rs.20-Rs.25 per bag our EBITDA would be somewhere around Rs.1,000 per ton. So you meant Rs.20- Rs.25 from the current prices?

Mr. H.M. Bangur - Managing Director, Shree Cement

No. I mean compared to the last year, last year whole year we are taking lots of we have Rs.25 again. Compared to the last year, we were only comparing the whole year to whole year.

Mr. Aditya Khimani - HSBC

Okay. But then prices have to fall further how much from the current levels to give you that Rs.1, 000 EBITDA per ton?

Mr. H.M. Bangur - Managing Director, Shree Cement

That I have to work.

Mr. Aditya Khimani - HSBC

Okay. Because I presume that out of that Rs.20-25, Rs.10-15 correction would have already happened.

Mr. H.M. Bangur - Managing Director, Shree Cement

But that's what I was saying about Rs.10-15 has already been corrected.

Mr. H.M. Bangur - Managing Director, Shree Cement

Which is not that the prices will go continuously down some visioning the bad sign sometime bottleneck is there somewhere to get the opportunities. So average prices won't fall that sharply.

Mr. Aditya Khimani - HSBC

So may be like second quarter could see lower rising because of monsoon and again pick up toward the later end of third quarter.

Mr. H.M. Bangur - Managing Director, Shree Cement

For the last few years I am seeing monsoon is not a bad month at all. Now water is the problem and in monsoon enough water is available. So monsoon up to September is not the bad months. Normally the monsoon sale should come down but for last 3- 4 years I am seeing that up to August 15 or September beginning market remains high and the good demand is there.

Mr. Aditya Khimani - HSBC

Okay sir. Thank you.

Moderator

Thank you. Participants who wish to ask a question may kindly press "*" "1". We have a follow-on question from the line of Ajay Vora from Enam AMC. Please go ahead.

Mr. Ajay Vora - Enam AMC

Can you just give a sense of what has been our total investment in power in last 3 years till FY 10?

Mr. H.M. Bangur - Managing Director, Shree Cement

Just a minute. Three year old story only. All whatever is shown as investment in power division the capital employed is last 3 years only. So almost Rs.80 to 100 cr was the earlier. Now Rs. 737 cr the single capital employed shows it is after depreciation.

Mr. Ajay Vora - Enam AMC

Yes.

Mr. H.M. Bangur - Managing Director, Shree Cement

So it may be Rs.50 cr or so may be earlier, Rs. 680 cr is within the last 3 years.

Mr. Ajay Vora - Enam AMC

680 cr.

Mr. H.M. Bangur - Managing Director, Shree Cement

Yes. 50 Cr may be for our captive purposes.

Mr. Ajay Vora - Enam AMC

Okay. And sir can you just help me with sales mix during the last quarter and Q4 region wise what was the ...

Mr. H.M. Bangur - Managing Director, Shree Cement

Region wise.

Mr. Ajay Vora - Enam AMC

Yeah.

Mr. H.M. Bangur - Managing Director, Shree Cement

Region wise ...

Mr. Ajay Vora - Enam AMC

State wise as in.

Mr. H.M. Bangur - Managing Director, Shree Cement

No, state wise it is not I am not having it right now.

Mr. Ajay Vora - Enam AMC

Okay.

Mr. H.M. Bangur - Managing Director, Shree Cement

And that you may have to ask Mr. Bhandari later. I am not prepared with such detailed data.

Mr. Ajay Vora - Enam AMC

Okay, fine sir.

Mr. H.M. Bangur - Managing Director, Shree Cement

Thank you.

Mr. Ajay Vora - Enam AMC

Thank you very much sir.

Moderator

Thank you Mr. Vora. Ladies and gentlemen, due to time constraints the management would take one last question. The last question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Mr. Ashish Jain - Morgan Stanley

Sir just one housekeeping question. What was the average realization for FY10?

Mr. H.M. Bangur - Managing Director, Shree Cement

FY10.

Mr. Ashish Jain - Morgan Stanley

Yeah.

Mr. H.M. Bangur - Managing Director, Shree Cement

Average realization for cement just a minute. Realization per ton for cement is Rs.3, 462 per ton.

Mr. Ashish Jain - Morgan Stanley

Okay sir. Thank you very much.

Mr. H.M. Bangur - Managing Director, Shree Cement

Thank you.

Moderator

Thank you. That was the last question. I would now like to hand the conference over to Mr. Kamlesh Bagmar for closing comments.

Mr. Kamlesh Bagmar - Prabhudas Lilladher

Yeah, hi thanks. I take this opportunity to thank the management of Shree Cement for providing the opportunity to organize the con call. And thank you very much sir. Sir, would you like to have closing remarks?

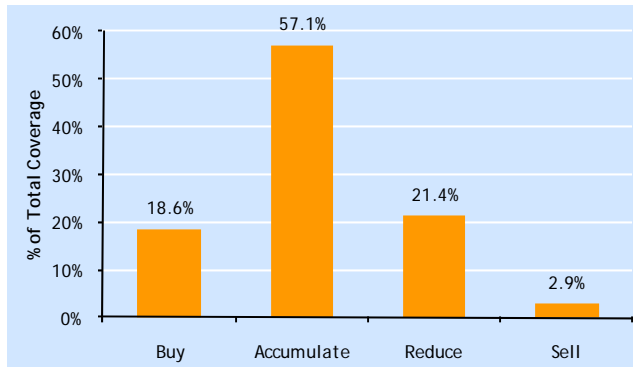
Mr. H.M. Bangur - Managing Director, Shree Cement

No, it's alright.

Mr. Kamlesh Bagmar - Prabhudas Lilladher

Thank you very much sir.

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