Third Quarter Results
Conference Call Financial Year 2010
February 4, 2010

Siddharth Rangnekar: Good afternoon everyone and thank you for joining us on this conference call today. We have on the call Mr. P. Trivikrama Prasad, Managing Director; and Mr. G.R.K Prasad, Director, Finance & Corporate Affairs. The call will start with opening remarks from Mr. Trivikrama Prasad, and we shall then have an opportunity for, question and answers to be taken up.

I would now like to call upon Mr. Trivikrama Prasad to share his views.

P. Trivikrama Prasad: Good afternoon everyone. I take this opportunity to welcome you all. The Company, I hope, has delivered a good performance and is up to your expectations in Q3FY10.

The earnings from the power segment continued to be healthy. In Q3FY10, power segment stood at Rs. 207 crore as against Rs. 228 crore in the corresponding quarter last year. Although the trend is stable in the immediate future, we expect some moderation in the realizations going forward.

For Q3FY10, income from sugar increased by about 24% to Rs. 19 crore on the back of improvement in realizations. Ferro Alloys also contributed to the topline with Rs. 67 crore in Q3FY10 and is progressively showing good operation trend. The net profit for the quarter stood at Rs. 132 crore in Q3FY10 from Rs. 101 crore previously. This includes a MAT credit, we received in the period.

When we take into account our performance in power segment, we did merchant sale of 339 million units in the current quarter against 304 million units last year. We are expanding our footprint in merchant power through the 64 MW and the 2 units of 150 MW each coal-based projects. I am pleased to share that we have already commenced work on the 64 MW and we have this unit contributing by the end of next financial year. The financial closure for the 2 units of 150 MW each, is nearing completion and they will come on line later.

During the quarter, Nava Bharat (Singapore) has signed a share sale and purchase agreement for acquiring 65% of the stake in Maamba Collieries Limited. The integrated project covers of revival of the coal mine and setting up a 300 MW power project. Our consortium has committed USD 108 million towards equity contribution of this project, and the total cost is around USD 550 million dollars.

In the Ferro Alloy segment, we continue to regulate our production and keep it at low levels as compared to last year. We are currently seeing some return of interest to the Ferro Alloy, given the increased demand of steel and steel products. We are closely monitoring the overall position and will adjust our merchant power and ferro alloy production accordingly.

The sugar segment has continued to outperform on the back of firm sugar realization for the quarter, which stood at Rs. 31per kg. We have already commenced crushing for the season. The unit has crushed about 170,000 tonnes, and we expect to crush another 100,000 tonnes, with an estimated recovery of about 9.5% or slightly less. This year, we have also imported some raw sugar and been processing it only during the season.

To conclude I would like to say that power segment continues to add to overall incremental profit, and we will continue to do so. We are happy about the opportunity we have in merchant power. With the mix of international and domestic projects, we plan to leverage the potential of the merchant sector. With that, I think I have covered the key points of discussion, and I will now request the moderator to open the session of questions and answers.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. First in line, we have Mr. Tejas from Karvy Stock Broking. Please go ahead.

Tejas: Good afternoon. This is relating to the acquisition of Maamba Collieries. We have heard that the wages of that company are outstanding since 6 months. Is this true?

G. R. K. Prasad: Yes, it is true.

Tejas: Then, how much outflow would be incurring towards that settlement?

G. R. K. Prasad: See, you have to understand; the acquisition is being done at equity value net of all these liabilities. So, what we plan to do is to put the upfront equity for acquiring the 65% stake. Then, along with our government partner, sit in the Company and see that these liabilities are addressed by way of further equity infusion which is already committed and also by way of short-term borrowing. That is the present plan of action.

Tejas: Okay, will the Maamba management be continuing.

G. R. K. Prasad: No. We will be taking over the management control may be in a month. At that point of time, it will be led by Nava Bharat with ZCCM-IH being the other partner holding about the third of the stake.

Tejas: How much would be the total creditors of Maamba Collieries approximately?

G. R. K. Prasad: We only have ballpark number of about USD 45 million and this needs to be confirmed through a completion audit close to the completion date.

Tejas: Okay and they have agreed to forego 75% of their recoverable amount, is it right?

G. R. K. Prasad: This needs to be ascertained through the audit process. But what we have done is whatever liabilities are finally standing in the books of accounts, it would be adjusted against the equity value and against the adjusted equity value, we will pay 65%.

Tejas: Okay, right and on the sugar business front, what production are we expecting for FY10 and FY11 because the current sugar situation looks like the supply is very short.

P. Trivikrama Prasad: For FY10, we are expecting crushing of about 2,75,000 tonnes of cane and with a recovery of roughly about 9.5%. We have imported about 4,000 tonnes of raw sugar, and are processing that too. With that, we will be having roughly about 3,00,000 bags of sugar. For the next year, we already have plantations yielding about 4.5 to 5 lakh tonnes which is almost 80% more than what we are going to crush in the current year. We have announced some good subsidies during the early part of the season, that was in August-September of last year itself, and that has helped us a lot in getting good planting for the current year. If the prices remain like this, it should be a good year, but I doubt if these prices are going to be there for some time. There may be a slight dip, at least a 10% dip .

Tejas: Right. Thank you. That is all.

Moderator: Thank you very much sir. Next in line, we have Mr. Punit Chokhani from Enam Securities Direct Pvt. Ltd.

Punit Chokhani: Good evening Mr. Prasad. Firstly, great performance. Actually in terms of the quarter, just wanted to understand, what exactly consists of other expenditure that we account for in our quarterly numbers?

G. R. K. Prasad: It consists of a mix of small expenditure in terms of the listing guidelines. So long as the expenditure does not form part of significant percentage, it is clubbed as other expenditure. We have freight; taxes and duties etc coming under that. And earlier, we used to have diminution in the value of inventory also as part of that.

Punit Chokhani: So if you look at it on a 9M basis, it has come down pretty significantly. We have reported Rs. 32 crore of other expenditure as compared to Rs. 94 cr last year, so has there been any significant reason for this decline in other expenditure.

G. R. K. Prasad: Value of inventory diminution that is one significant part. Secondly some of the freight and transportation expenses, these were related to ferro alloys like in last year, would not be figuring this year. These two are the major changes.

Punit Chokhani: Okay, sure, fair enough. In terms of merchant power, we sold as mentioned almost 339 million units, that was for the quarter right?

G. R. K. Prasad: Correct.

Punit Chokhani: What was the realization in terms of merchant sale tariff during the quarter?

G. R. K. Prasad: There are two components in this. One which pertains to GRIDCO.

Punit Chokhani: Sure. I am just asking in terms of leaving out GRIDCO, would you give me realization, the gross realization of merchant power sold?

G. R. K. Prasad: It is about Rs. 6 per unit.

Punit Chokhani: What would be currently, I mean, considering that we have these 3M forward contract prices, at this point, what have we tied up for in terms of merchant sale tariff for the Q4FY10.

G. R. K. Prasad: For Q4FY10 we have tied up some contracts . Some contracts are still open, for example January we did, and for February, we are waiting for some contracts still. Overall, I expect the rates could be around Rs. 5 per unit. There was forced outage in our 20 MW power plant in January. It could not be dispatched on account of lack of offtake.

Punit Chokhani: Okay, in terms of quarter we have claimed Rs. 13 crore of MAT credit in Q3FY10, and if you look at 9M, it has been Rs. 49 crore. Just wanted to get your sense, how much zero power we do at the end of the day. What was the available MAT credit at this point in time that we can claim?

G. R. K. Prasad: We have substantial MAT credit, but I think it is more a function of what is the kind of profit and how is the mix from ferro alloy and power. So, we expect some more MAT credit to come in Q4FY10 as well. The effective tax rate will be around 7% for the full year.

Punit Chokhani: Okay, that was helpful. Just in terms of Indonesia, we were expecting trading to start in Jan. Has that begun- is that sort of getting profits in our Singapore subsidiary at this point in time?

G. R. K. Prasad: Well, that has got delayed on account of the forestry formality having not been completed. We were hoping that the impending clearance would help us move the coal out. We expect that to be done in the next couple of months or so, but what I can tell at this point of time is that our expectation of about 600,000 tonnes of coal, extraction to take place from that mine in FY11 to hold.

Punit Chokhani: Okay, last time we spoke, you had mentioned that there was this one second approval that we were waiting for in Indonesia, has there been any progress on that side as of now?

G. R. K. Prasad: That is what has been held back because they are waiting for some regulations to undergo some changes . Whatever that was under process is held off. That is where the delay is currently.

Punit Chokhani: Okay, right, and any update on the 1050 MW? The project JV with Malaxmi.

G. R. K. Prasad: I would say, at this stage, it is still in limbo. The matter of equity shareholdings and other things are yet to be resolved.

Punit Chokhani: Right. Sure, thank you. I will come back for more questions. Thank you so much.

Moderator: Thank you very much sir. Next in line, we have Mr. Vineet Maloo from Birla Sun Life AMC Ltd. Please go ahead.

Vineet Maloo: Excellent set of results. Congratulations for that, my question is regarding your projects that you are undertaking the power expansion; just could you give me the timelines when you expect to commission them?

G. R. K. Prasad: The 64-MW is under construction in Orissa. That is going on stream as expected in December 2010. For the other two units of 150 MW, as mentioned last time we were looking at proper evacuation system. That has taken some time and we are about to have a solution for that evacuation system. Pending the evacuation arrangement, we have since received all the debt sanctions and the process of documentation is underway. The joint loan documentation and other formalities to be done by March 2010 and we hope to place the orders around that time.

Vineet Maloo: Okay, and, where exactly this will be located?

G. R. K. Prasad: These are proposed to be Andhra Pradesh at two locations in our existing factory premises. Two 150 MW units.

Vineet Maloo: Okay, if it is at the existing location, then how come we don't have a system of evacuation already in place?

G. R. K. Prasad: Yes, because the capacity is higher at 150 MW. This requires a different evacuation system. For example, we have 132 KV dispatch system today, but the proposed units require a 220 KV dispatch system.

Vineet Maloo: Okay. I just wanted to know, what would be the fuel sources for these two plants?

G. R. K. Prasad: For these plants, we use combination of imported coal and domestic coal.

Vineet Maloo: When you say domestic, does it mean linkage or we will be buying from the e-auction and open market?

G. R. K. Prasad: Linkage and washery rejects. E-auction would be a small fraction. The linkage coal and washery rejects will be the significant source.

Vineet Maloo: Linkage and washery rejects, how much of the linkage for each of them?

G. R. K. Prasad: Linkage has been applied for, but you can assume the washery rejects to be the predominant source of fuel for the one which is located in Paloncha. And the one which is coming up near Dharmavaram, we will be using imported coal.

Vineet Maloo: Okay, and these washery rejects we would get from the coal that we will import or something or where would it come from?

G. R. K. Prasad: The washery rejects will come from the coal company called Singareni Collieries.

Vineet Maloo: Okay, they will sell rejects, and you will basically buy rejects from the market.

G. R. K. Prasad: That is right.

Vineet Maloo: Okay. Based on imported coal, if we are doing, have we already tied up the power that we planned to generate through some PPAs or something or have we kept it open?

G. R. K. Prasad: We have not tied up PPA with the utility, but we have PPA based trader for the unit. The trader in turn will be getting into long-term contracts with utilities. We have still time for that compliance.

Vineet Maloo: Okay, but since you have a PPA with the trader, at what price would it be at?

G. R. K. Prasad: We would realize a base rate of 3.75 per unit.

Vineet Maloo: Okay, and are there any upper….

G. R. K. Prasad: This is the rate assured by the trader.

Vineet Maloo: Any upside that will be shared with us?

G. R. K. Prasad: Yes, any upside will be shared on the ratio of 80:20. 80 for us and 20 for them.

Vineet Maloo: Based on these sayings, what kind of payback are you looking at for these plants, especially when you don't have your own coal, and your tying capacity at let us say 3.75 and some upside because when it comes probably, the current merchant rates may not prevail. So wondering what kind of payback you have in mind for these plants.

G. R. K. Prasad: Well, depending on only this rate we can talk about payback on our investments. I think at this stage it is safe to assume around 6 to 7 years.

Vineet Maloo: Okay, and given that scenario is so good in India, still that we can assume a payback for a power plant within 6 years approximately. I am just wondering would it be significantly better in a country like Zambia where we are investing in that collieries and the power plant?

G. R. K. Prasad: I think you need to look at from the perspective of integration, one because you have mine and power plant being set up there.

Vineet Maloo: Right.

G. R. K. Prasad: Part of the coal giving us revenue stream by way of coal business itself, and second thing is on a 25-year timeframe, the return that we would get from Zambia, could possibly be competitive to we could hope to get on a similar scenario in India.

Vineet Maloo: Okay, so we would be basically producing much higher quantity of coal in that company and selling it outside to others also.

G. R. K. Prasad: There are two seams of coal in that coal company. One seam is a high grade coal, like metallurgical coal which will be used by the copper companies and cement companies and other industries. And the other one is low-grade coal, but still is very good coal for thermal power generation. Each seam has approximate reserve of about 60 odd million tones.

Vineet Maloo: Right, and how much do you plan to extract eventually on a steady state basis.

G. R. K. Prasad: In 3-4 years' time, about 2 million tones for each seam separately.

Vineet Maloo: Okay, so roughly 4 million tonnes of production.

G. R. K. Prasad: Yes.

Vineet Maloo: The thermal coal that we will extract, we will use that in the power plant that we will set up there?

G. R. K. Prasad: That is right.

Vineet Maloo: And that power plant will again come in that company only or we will own it separately.

G. R. K. Prasad: It will be in that company only.

Vineet Maloo: And there also the sale price, it will be contracted fixed return kind of investment, or how will it work, the power plant?

G. R. K. Prasad: It is a fixed return kind of investment, like a PPA, long-term PPA.

Vineet Maloo: Right, and sir, what kind of return can you expect from the power side?

G. R. K. Prasad: We are targeting an equity return of 30%.

Vineet Maloo: And with what leverage?

G. R. K. Prasad: 70:30.

Vineet Maloo: Okay, right, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Ashish Kejriwal from Batlivala & Karani Securities India Pvt. Ltd. Please go ahead.

Ashish Kejriwal: Two to three questions only. One, when you are saying about you have given a guidance of 7% effective tax rate in FY10, so do we expect the similar kind of tax rate in FY11 or how it works?

G. R. K. Prasad: It is based on the mix for the profit. For example, we have a better profits on ferro alloys, then the effective tax rate could be higher.

Ashish Kejriwal: Suppose given this current situation, the kind of profit mix which we have currently, the similar sort of profit mix remains in FY11, then also effective tax rate will be around 7%?

P. Trivikrama Prasad: No, it will be higher because MAT is higher, is not it, MAT is higher in the current year.

G. R. K. Prasad: We have to adjust the MAT credit.

Ashish Kejriwal: Yes, that is what I am looking at, what kind of tax credit could we have in FY11?

P. Trivikrama Prasad: Well, we have credit of about Rs. 30 odd crore.

Ashish Kejriwal: Secondly, in your Indonesian plant, you are talking about going to, in fact, that is some more delayed but still you are hopeful of 0.5 to 0.6 million tonnes. So, roughly when we can expect this to happen, that is on a monthly basis what could be your run-rate?

G. R. K. Prasad: Why I did not want to give a monthly rate is because of this delay, but the mine has a potential of, let us say on a monthly basis, extraction of around 60,000 to 70,000 tonnes.

Ashish Kejriwal: But the ramping up will take some time I think?

G. R. K. Prasad: No, I am talking about the initial run itself. So, our expectation of meeting the 0.6 million tonnes should not be a problem in FY11?

Ashish Kejriwal: Okay.

G. R. K. Prasad: So, it could be like the whole extraction and sale could come in from some time in June 2010 or so. We will still end up having that kind of volume.

Ashish Kejriwal: Is there any possibility that it could be further delayed?

G. R. K. Prasad: At this stage, beyond June, no. It could be earlier than that, but I think end June is the latest date.

Ashish Kejriwal: And regarding cost, regarding your realization for this particular kind of coal, what could be the current realization prevailing in Indonesia?

G. R. K. Prasad: For this kind of coal, it is about USD 50 FOB.

Ashish Kejriwal: And as you mentioned earlier also that your cost of mining could be around $35 to $40.

G. R. K. Prasad: That is right.

Ashish Kejriwal: You will still maintain that.

G. R. K. Prasad: Yes.

Ashish Kejriwal: Okay, and in fact, when you are looking at your Indian operation, you were saying that PPA with traders, so this PPA is for how long or will it be changing in the course of time?

G. R. K. Prasad: We wanted the PPA for the loan period, so that is for 10 years.

Ashish Kejriwal: So, they agreed for that?

G. R. K. Prasad: Yes, with a base rate.

Ashish Kejriwal: That means, for the next 10 years, they are agreeing for Rs.3.75 at least.

G. R. K. Prasad: See, with trader, the PPA is not all that binding, it is more like a competitive structure, but with this rider, they have signed the piece of document.

Ashish Kejriwal: And what will be the first day of commissioning of your first 150 MW, due to order for this 150 MW, so when can we expect the first unit to be commissioned now?

G. R. K. Prasad: The period of commissioning is about 30 months, so you can reckon that from let us say beginning of April 2010.

P. Trivikrama Prasad: That will be more realistic kind of a timeframe.

Ashish Kejriwal: Okay, Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Jayesh Shah from Reliance Capital Asset Management. Please go ahead.

Jayesh Shah: I had a question regarding the ferro alloys. In ferro alloy the EBIDTA margins have reduced sequentially, what would be the reason for that?

G. R. K. Prasad: On account of higher realizations in the corresponding periods.

Jayesh Shah: Okay and what kind of volumes would you sell for ferro alloys for FY10, what is the target?

G. R. K. Prasad: Volume of production is about 35,000 tonnes, combined for chrome and manganese alloys.

Jayesh Shah: Okay.

G. R. K. Prasad: And sales could be close to about 60,000 tonnes.

Jayesh Shah: And what would be the production for FY11 and FY12, targeted production for FY11 for ferro alloys?

G. R. K. Prasad: At this stage, we hold the same number. About 35,000 to 40,000 tonnes.

P. Trivikrama Prasad: See, this is like, we are being very flexible here, because we have to be working based on the conditions in the market, like today suddenly China is out of the market for ferro chrome, I mean, they are just lying low saying it is lunar year or something like that and so one month they are off, thus immediately the prices fall because there is no off take to China, one of the major consumers in the world.

P. Trivikrama Prasad: We work on as and when they come. Today, these things have become so internationally…it is not just you are operating from India, everyone knows everywhere what is happening everywhere, so you enter or you get out of the market with that kind of ease or with that kind of situation. We do plan as so far as Prasad said that you make, we will definitely keep up the figure of about 35,000 to 40,000 tonnes, but beyond that I think it would become a little….you may again come back to me and say you said so, that is why you know.

Jayesh Shah: No, that is okay. That changes with change in scenario. What would be the margins for Q4 or for entire FY10, margin per tonne or something like that, for FY10 only.

G. R. K. Prasad: Well, you have the figures for 9M. For the next 3M, on the manganese side, I think we would definitely be making profit, chrome looks a little weak at this stage because of the higher chrome ore prices.

Jayesh Shah: So, the profitability done in Q3FY10 will continue in Q4FY10 for ferro alloys.

G. R. K. Prasad: Yes, I think that is the safe assumption.

Jayesh Shah: Okay, thanks a lot. I will come back for other questions.

Moderator: Thank you very much sir. Next in line, we have Mr. S Bharath from Sundaram BNP Paribas AMC Ltd. Please go ahead.

S Bharath: Good evening sir. Just two questions from my side. One is I just missed a point on Maamba. Do we have any opportunity to sell coal over and above what we mine for the power plant?

G. R. K. Prasad: Yes. There are two grades of coal. The high-grade coal will be traded which is what has been happening in Maamba so far.

S Bharath: Okay and we have any cap on that or on the mining side, what would be the mining plan?

G. R. K. Prasad: Well, the mining plan emanates from what is the coal required for the power plant. See, what happens is the whole coal is divided into seams. The upper seams are used for the power generation, and the lower seam is used for trading. We have to extract the coal in such a way that we don’t get into a problem of having higher power based coal than what we could use reasonably over a period of time because stacking of coal and combustion problems are to be avoided.

S Bharath: Okay, fine, and second, in terms of our existing coal procurement, how is the pattern as of now in terms of import and linkage mix for our existing plant?

G. R. K. Prasad: For the existing 228 MW, we have mix of local coal through linkage and e-auction, washery rejects and imports. Import is confined to 20 MW power generation whereas the 208 MW power generation uses mix of all three sources, with linkage being the predominant source, roughly about 70% of the annual requirement.

S Bharath: And any increase in coal prices you have seen in the last 3 to 4 months apart from what has been given on the linkage coal, I mean, on the e-aution as well as rejects mix, you have seen an increase?

G. R. K. Prasad: So far no, but I think some increase is expected in e-auction coal because in the months ahead demand will be higher.

P. Trivikrama Prasad: Current year the prices were much lower.

S Bharath: Okay fine, and lastly, in terms of power sales to GRIDCO, any increase in realization that they have announced in the recent term?

G. R. K. Prasad: They have given different slabs and different rates. According to that, for our 20 MW, we should be getting 3.30 per unit as against what we were getting earlier. This is with conditions which are debated and the increase will be prospective.

S Bharath: Okay, fine, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Amol Kotak from ASK Investment Managers. Please go ahead.

Amol Kotak: You mentioned Rs. 5 per unit, the contractual rate for the fourth quarter. You were referring to gross or net realization?

G. R. K. Prasad: Let me correct that. I think the gross realization is about Rs. 5.50 per unit. What I am factoring is that there will be some time when power sales won't take place like what happened for 20 MW power plant in January. Otherwise, the gross realization is around Rs. 5.50 depending on our existing contract.

Amol Kotak: Okay, so given that 20 MW could not sell power in the month of January, do you see a lower offtake in Q4FY10 vis-à-vis Q3FY10?

G. R. K. Prasad: Yes.

Amol Kotak: Okay and it is mainly because of the 20 MW power plant.

G. R. K. Prasad: Yes, mainly because of 20 MW power plant.

Amol Kotak: Also, given that the linkage prices and all that have been increased, that you are expecting some increase in the coal prices, do you expect to maintain these margins or they may come down, I mean, what I am trying to say, would they come down drastically or will it be maintained at 50% or lower than that, EBIT level?

G. R. K. Prasad: EBIT level, I don't think will be changed much.

P. Trivikrama Prasad: Because already the increases are factored in.

Amol Kotak: So, you don't expect moderation in the power margins?

G. R. K. Prasad: No. Sorry Amol, not on account of coal cost, but if the realizations were to drop, then EBIT would go down, that is something which everybody is forecasting now.

Amol Kotak: Okay. On the Zambia coal, is there any annual throughput which you are expecting next year for the high-grade coal?

G. R. K. Prasad: Next year, we expect to have about 6 months operation in that coal mine roughly at around 60,000 tonnes, so about 300,000 tonnes, I think, is definitely targeted, it could be little higher than that.

Amol Kotak: Okay, and what sort of dollar per tonne margin you will do in that mine?

G. R. K. Prasad: We expect to about USD10 minimum, max of USD15 before tax per tonne in the first year.

Amol Kotak: Okay, and in terms of your ferro alloy, what sort of delta are you earning currently on manganese?

G. R. K. Prasad: Manganese EBITDA is around Rs.7,000 per tonne. Chrome EBITDA is just about Rs. 3,000 per tonne.

Amol Kotak: Okay, and just one last question on the capex, how much are you going to spend this year and for the next two years?

G. R. K. Prasad: Capex relates to 64 MW under implementation and the two 150 MW units and then Zambia project. So, for 64 MW, this year we expect to spend about Rs. 50 crore. Including whatever has already been spent, and about Rs. 150 crore next year, and finally about Rs. 30 crore in the following year. And for the 2 x 150 MW units, we expect to spend about Rs.60 crore either by March or early April and about Rs. 100 crore during FY11 and then will be bulk of the expenditure in FY12, of about Rs. 700 crore.

Amol Kotak: And on Zambia?

G. R. K. Prasad: Zambia, the investment plan is like this. This year, we are required to pay about $27 million for our 65% stake, and next year, we expect our disbursement to be about $25 million and that leaves around $90 million to be funded over the next 3 years.

Amol Kotak: Okay. What was the gross debt and cash position?

G. R. K. Prasad: Gross debt including FCCBs is about Rs. 380 crore and cash is about Rs. 600 crore.

Amol Kotak: Okay, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Vishal Sheth from Batlivala & Karani Securities India Pvt. Ltd. Please go ahead with the question?

Vishal Sheth: What would be the cost of mining at Zambia?

G. R. K. Prasad: First year, we expect the cost to be about USD 40 per tonne.

Vishal Sheth: So, this includes fixed cost components.

G. R. K. Prasad: Yes, it includes everything based on contract mining.

Vishal Sheth: Contract mining, okay. If you exclude the fixed costs, if you exclude depreciation, if you include interest, and if you exclude tax and all, on the operating cost, what would be the per tonne basis?

G. R. K. Prasad: About USD 25 per tonne.

Vishal Sheth: And USD25 per tonne.

G. R. K. Prasad: For the high-grade coal carrying calorific value of about 6,300 k.cals.

Vishal Sheth: This is for the high-grade coal.

G. R. K. Prasad: Yes. For the power grade coal, the cost could be in the region of about USD 20 per tonne. That is the cost for extraction, I mean, removal of overburden and mining.

Vishal Sheth: Sure. Would you be having the strip ratio figures?

G. R. K. Prasad: The mine has strip ratio of about 1:6.

Vishal Sheth: For the upper seam and lower seam combined?

G. R. K. Prasad: I am talking about entire seam that includes lower seam as well.

Vishal Sheth: And when we sell the high-grade coal, is there any royalty or something that we have to pay to the government?

G. R. K. Prasad: That is included in the cost. USD 45 per tonne.

Vishal Sheth: Sir, what would be the royalty if you could specify it?

G. R. K. Prasad: It is about 3.5%.

Vishal Sheth: And what is the tax rate at Zambia?

G. R. K. Prasad: This coal will be subjected to about 30% tax.

Vishal Sheth: Okay, could you also help me out, you said the cost of extraction at Indonesia is about USD 35 per tonne.

G. R. K. Prasad: Right.

Vishal Sheth: This would be the operating cost, only the variable component like….

G. R. K. Prasad: No, that is the cost to mother vessel, FOB cost.

Vishal Sheth: Perfect. Could you give me the strip ratio over here?

G. R. K. Prasad: It is about 1:5.

Vishal Sheth: And quality of coal?

G. R. K. Prasad: Quality of coal is 5,500 but here the moisture is about 28%.

Vishal Sheth: Sure sir, that is inherent.

G. R. K. Prasad: Yes.

Vishal Sheth: Okay, perfect, thanks a lot. I will come back for more questions.

Moderator: Thank you very much sir. Next in line, we have Mr. Shaillendra Lottilikar from Concilium. Please go ahead.

Shaillendra Lottilikar: Can you just take us through the progress of 1050 MW plant in Orissa please?

G. R. K. Prasad: The project is in a state of limbo at this stage. So, it is waiting for some clarity to come on the equity structure.

Shaillendra Lottilikar: By when do you expect this to be settled down?

G. R. K. Prasad: In a couple of months.

Shaillendra Lottilikar: There have been news reports about the government taking it very seriously and kind of trying to scrap the MoU on this count?

G. R. K. Prasad: Yes, that is why we need to address the equity issues much before that.

Shaillendra Lottilikar: So, you are quite certain you could be addressing these issues in the next one month or so?

G. R. K. Prasad: Yes.

Shaillendra Lottilikar: Okay, and how much of coal do you expect to come out in the next 1 or 2 years from the Zambian mines.

G. R. K. Prasad: Zambian mines, the first year, could start some time in September 2010 and upto March 2011 our target is 300,000 MT. Following two years, it is expected to be close to a million a year, FY12 and FY13.

Shaillendra Lottilikar: Okay, coming back to Orissa power plant, have you acquired land for that purpose?

G. R. K. Prasad: We have identified and there are certain processes which includes notifications by the Government. We have to pay the compensation at which stage it is holding now.

Shaillendra Lottilikar: Okay. Thank you so much. I will come back if I have something else.

Moderator: Thank you very much. Next in line, we have Mr. Subhabrata Mitra from Jet Age Securities. Please go ahead.

Subhabrata Mitra: Just wanted to know the ore cost, how are chromium costs currently?

G. R. K. Prasad: Well, I think it is like this. Chrome is about Rs. 10,000 a tonne. Manganese, as I told you earlier, we have been carrying inventory, so our purchase of manganese ore is of no relevance really. But still it is around Rs. 8,000 per tonne now.

Subhabrata Mitra: Okay, and I missed out on the MAT credit enters and number for Q4FY10.

G. R. K. Prasad: I think it will be similar to Q3FY10, even the pattern of profit.

Subhabrata Mitra: Okay, the MAT credit will be around Q3FY10 number only?

G. R. K. Prasad: Yes.

Subhabrata Mitra: Okay. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Ankit Maheshwari from Equirus Capital Pvt. Ltd. Please go ahead.

Ankit Maheshwari: Can you please elaborate on the funding for the Zambian acquisition. Have you funded it through internal accruals?

G. R. K. Prasad: The equity requirement from Nava Bharat is about USD 140 million including the upfront payment for the 65% stake acquisition. And debt will be about 380 million. So, the debt will be sourced from banks and financial institutions for which we have already engaged a financial advisor. Equity funding at this stage is targeted to be met through equity dilution.

Ankit Maheshwari: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: This was regarding your explanation, you said that you were not able to sell power from one of your 20 MW this thing, and the other thing you mentioned was you were still waiting for an arrangement for February, we are already into February, 5 days in February, I just want to understand what you meant by that?

G. R. K. Prasad: Well, you see, for the 20 MW power plant, the fuel base is imported coal, so our cost is roughly about Rs. 3.20 - Rs. 3.30. For that, you need to make any money, the price has to be close to Rs. 4 or above. So, today, none of the utilities is in a position to buy power, at least January they did not buy. And February, we are waiting for the orders to come from a couple of entities. This could possibly start from let us say 15th of February. Till such time, we have to keep the unit idle.

Rahul Bhangadia: Could you throw some light. What exactly happened in January because I would assume that SEBs were buying the same power before, what happened in January?

G. R. K. Prasad: January, there was no requirement. There were two factors which contributed to this kind of low offtake. One, because of cold weather, the demand fell substantially, and second thing is most of the utilities are now reeling under severe financial constraints. So, they are not able to close the orders. Most of the tenders which got issued in December are yet to be closed by some of the utilities. So, they, should be going through demand management because of low purchases.

Rahul Bhangadia: And the remaining part of your power, have you signed up or are you estimating that you will get Rs. 5 per unit for the same.

G. R. K. Prasad: We signed up.

Rahul Bhangadia: And for how long is that signed up at Rs. 5 per unit.

G. R. K. Prasad: Up to March.

Rahul Bhangadia: And when would you sign something for beyond March?

G. R. K. Prasad: Sometime later quarter, this month, or early March.

Rahul Bhangadia: So, you expect Rs. 5 per unit to be sustained after a month.

G. R. K. Prasad: Yes, given some of the offers that have come our way, I think up to September Rs. 5 per unit can be sustained.

Rahul Bhangadia: Okay, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Viral Trivedi from Padmakshi Finance Services. Please go ahead.

Viral Trivedi: Yes, good afternoon everyone. My question is basically relating to ferro alloys, now is there any sign of any bottoming out in that ferro alloy segment, and if at all, then what could be the impact on your merchant sale and captive consumption for power?

G. R. K. Prasad: Well, are you suggesting they have bottomed out and they are going to go up?

Viral Trivedi: Yes, I am just asking.

G. R. K. Prasad: The answer for manganese alloys is yes, but it is not so firmed that we can take a call on increased production at this stage, but for chrome, the situation is relatively weak in terms of the cost dynamics, though the realizations moved up, the cost of ore also has moved up substantially. The situation is not very promising for ferrochrome. So, in the realizations part the bottom out has taken place, but now we are grappled with how the ores would move up now. That would determine our production strategy.

Viral Trivedi: So, as of now, you don't see major change say in captive consumption or merchant sale of power?

G. R. K. Prasad: As of now, we are not envisaging any difference between FY10 and FY11.

Viral Trivedi: So, what is the merchant sale target for FY11?

G. R. K. Prasad: Same as in much FY10, excepting that we have a 64 MW coming in December 2010.

Viral Trivedi: Right.

G. R. K. Prasad: So, that could add to incremental volumes.

Viral Trivedi: So overall, merchant sale of megawatt about…

G. R. K. Prasad: Merchant sale is about 170 to 180 MW.

Viral Trivedi: Okay. My another question is, as you said, there will be some moderation in realization, so what could be the reasonable amount you are envisaging, FY11 – FY12 onwards for merchant sale?

G. R. K. Prasad: We can't really put a number, but we certainly see….

P. Trivikrama Prasad: Till September at least it is Rs. 5 per unit because what we have received, maybe it is going to be the same or slightly increased or decreased depending upon how the utilities are going to look at the situation, but generally the trend is for increase after September.

Viral Trivedi: Yes, just one more question on your Zambia plant, when the revenue will start reflecting in the accounts for Nava Bharat Ventures?

G. R. K. Prasad: It is at consolidated level. We expect that to take place in the second half of FY11. From October FY10, we expect to have the mine to be fully operational, so for 6 months of FY11, we expect the coal sales being figured on a consolidated mode.

Viral Trivedi: Okay, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Bhavin Chheda from Enam Holdings Pvt. Ltd. Please go ahead.

Bhavin Chheda: Any update on Indonesia coal mine which you were looking for?

G. R. K. Prasad: The one which we paid for you are talking about?

Bhavin Chheda: Yes.

G. R. K. Prasad: Update is that the approval process is delayed. So, we expect the approval from the forestry ministry to come by in about 2 to 3 months. I believe, they have kept all the approvals on hold, pending some clarity from Government or some such thing, but we expect the sale volume from that mine to remain at about 0.6 million tonnes for FY11.

Bhavin Chheda: So, you will get 0.6 million tonnes from that mine.

G. R. K. Prasad: Yes, in FY11.

Bhavin Chheda: Okay, and this will have a calorific value of sub 4,000 right?

G. R. K. Prasad: 4,500 on ARB basis.

Bhavin Chheda: Okay. So, basically, you will have USD 4 to 5 per tonne margin on this?

G. R. K. Prasad: Yes, about USD 5 per tonne definitely, but it could be USD 5 per tonne minimum, but it can vary from USD 5 to 10 per tonne. It is captured at our Singapore company.

Bhavin Chheda: Okay, so basically entire coal will be used for your power plants only right?

G. R. K. Prasad: Not immediately. By 2012, when our 150 MW unit is ready, from then onwards we would use the entire coal. Till such time, about 2.5 lakh tonnes every year is the expected usage from this mine.

Bhavin Chheda: Okay, so till that time only 250,000 will be for captive use.

G. R. K. Prasad: Yes.

Bhavin Chheda: Okay, so basically this coal will be brought to India and sold or you can sell it anywhere outside or what are the plans like?

G. R. K. Prasad: Well, it can be sold from anywhere.

Bhavin Chheda: Okay, and in case of this Zambia coal also, this is also via Singapore company right?

G. R. K. Prasad: Yes.

Bhavin Chheda: Okay, so this Singapore company is 100% subsidiary?

G. R. K. Prasad: Correct.

Bhavin Chheda: And what will be the end usage of like, is there are any regulation of coals to be sold to particular markets and all that, or it is completely open, you can sell coal anywhere?

G. R. K. Prasad: The high-grade coal can be sold anywhere. There is no regulation on that.

Bhavin Chheda: So, there you are looking at volumes of close to 3 lakh.

G. R. K. Prasad: Volume of 3 lakh tonnes this year i.e., FY11.

Bhavin Chheda: less than 1 million.

G. R. K. Prasad: That will be definitely consumed within Zambia. Up to 1 to 1.3 million, there is a good demand coming from Zambia itself.

Bhavin Chheda: Okay, and how far, this mine will be from the port to understand what the logistic support is there?

G. R. K. Prasad: Logistics cost is very high. The export option is not one which is being pursued.

Bhavin Chheda: Okay, so Zambia coal is all for internal consumption?

G. R. K. Prasad: Yes, mostly for Zambia.

Bhavin Chheda: Because you are looking for 1 million in FY12 and 2 million in FY14, so all will be for Zambia market only.

G. R. K. Prasad: Yes, mostly for Zambia, and to some extent surrounding countries like Malawi, Congo and Tanzania.

Bhavin Chheda: Okay, and in case of investments if I understand correctly, the Singapore Company bought 65% in Maamba, and basically equity portion of overall project cost is roughly USD140 million, right?

G. R. K. Prasad: Correct.

Bhavin Chheda: And out of that, Nava Bharat share is USD140 million equity.

G. R. K. Prasad: Equity for the project is about USD 140 Million over and above initial payment of USD 27 Million.

Bhavin Chheda: So, out of that, how much you have paid till date and what is the schedule like? USD27 million you paid immediately right.

G. R. K. Prasad: We paid about USD 3 million now, up on signing of SPA. Another $24 million is expected by March 2010. That completes the acquisition process. And for mine, our requirement is about USD 20 million and balance is for power, which could take place over three years. I would say, the first of payment could happen sometime beyond September 2010.

P. Trivikrama Prasad: But over a period of 3 years.

Bhavin Chheda: Okay. So, basically, Nava Bharat standalone will contribute to the equity of Nava Bharat Singapore, which in turn will infuse into Zambia, right?

G. R. K. Prasad: That is the plan now.

Bhavin Chheda: So, Nava Bharat standalone balance sheet will have USD 25 million outflow by March 2010, then for mine USD 20 million and then if at all for power, but power, you can raise debt in Singapore company and fund it right?

G. R. K. Prasad: See, for this mine in Zambia also, we have plans to raise some debt in Singapore company. So, that leverage will take place by using our balance sheet here for the comfort. Over a period of time, I might say the immediate source of funding is Nava Bharat's internal accruals.

Bhavin Chheda: Okay, and just on the overall debt and cash balance you said around the debt was close to Rs. 380 crore, cash Rs. 600 crore, the same figures were there on September 09, so just wanted to know this current quarter's cash flow was spent in capex in all that.

G. R. K. Prasad: That is mostly capex for the 64 MW power plant, repayment of term loan instalments and increase in net working capital.

Bhavin Chheda: Okay, so almost there was Rs. 100 to Rs. 150 crore capex.

G. R. K. Prasad: The debt of course has come down little; it is about Rs. 380 crore, debt repayment as of now.

Bhavin Chheda: Okay, and last question on this power merchant sales figure for Q4FY10, last two quarters you were going at 33 crore units of sales, so last quarter will be around 25 to 30 crore units because that 20 MW will not run for 1 to 1-1.5 months.

P. Trivikrama Prasad: No, it will run. Don't worry about it. It will run for the next few days.

Bhavin Chheda: No, but 1 month's impact.

P. Trivikrama Prasad: Yes, you take it as 1-1.5 month's yes. That contribution would be only about 2 crore units, it is like 4 lakh units per day. It comes to about 120 plus 2 crore units.

G. R. K. Prasad: That would be the fall. So, about 300 million, I think, is definitely possible.

Bhavin Chheda: Okay, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Kishan Gupta from CD Equisearch. Please go ahead.

Kishan Gupta: Good evening. Wanted to know what would be the trigger next fiscal because although we are commissioning our power facility at the end of year, but we have already update as close to 100% for the current fiscal, the power capacity, so what will be the trigger next fiscal?

G. R. K. Prasad: We don't actually provide guidance. See, the next big event will be the operationalization of the Zambian mine and the Indonesian mine. Those two will be significant milestones, and I think the financial closure for the Zambian power project which is expected by October 2010 will be a major trigger.

Kishan Gupta: Okay, and Indonesian mines are already operating, right.

G. R. K. Prasad: Well, Indonesian mine was operational, but we are prevented from moving the coal out because of some forestry clearance, and that should happen in the next 3 months.

Kishan Gupta: But it won't be reflected in financials much, this is what I am saying. For the next fiscal, the performance, like, since you have already located at close to 100% for power, and the Zambian mines will start only by the second half, so just wanted to know what will drive growth next fiscal then?

G. R. K. Prasad: The next fiscal growth will be driven by coal sales to some extent and marginally increased volumes of power sales on account of 64 MW power plant coming on stream in December 2010.

Kishan Gupta: Okay, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Akhil Reddy from PCS Securities Limited. Please go ahead.

Akhil Reddy: Just to build on your point about you making a point about the financial constraints with regard to the utilities that are procuring from you at merchant tariffs, just wanted to know when do you think that problem would be resolved for them, and I also want to know what is the mix between your private clients and the utilities that are buying from you at merchant tariffs?

G. R. K. Prasad: To answer your last part of the question. The sales takes place through traders but all the sales go to the utilities only. There are no private clients.

Akhil Reddy: Right, but if that is the case do you expect their problems to be resolved in the next couple of months, because you said they have a problem, they have a financial constraint, and they are not able to pay those merchant tariffs which they were paying in the past?

G. R. K. Prasad: Well, it is a task for the utility to go on pursuing a severe demand management or providing power to their customers. Once they decide to provide power, they have to buy, and that is when the State Governments have to provide necessary funds to them.

Akhil Reddy: Alright, so you don't see a problem on that front.

G. R. K. Prasad: Well, I don't see because those months are very critical in any government situation.

Akhil Reddy: Coming back to the coal. Could you just tell us the coal consumption per unit and the average landed cost of coal per tonne?

G. R. K. Prasad: Coal consumption per unit is roughly about 1.2 kgs, and in terms of cost per coal, it hovers around Rs. 1.5 to Rs. 1.7 per unit of power. Excepting for 20 MW power plant where the cost is close to about Rs. 2.8 per unit.

Akhil Reddy: Alright because that is imported.

G. R. K. Prasad: That is right.

Akhil Reddy: Alright, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Manish Laddha from Pratibhuti Viniyog Ltd. Please go ahead.

Manish Laddha: Good evening. Can you share with us the ferro alloys production volumes and average realization?

G. R. K. Prasad: Production volumes are already made available on the website as well as release.
Manish Laddha: Right, I am talking about the quarter.

G. R. K. Prasad: Quarter also.

Manish Laddha: Okay, and realization.

G. R. K. Prasad: Quarter realizations, manganese are around 54,000. Chrome is about 50,000.

Manish Laddha: Okay, thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. S. Vijayaraghavan from Spark Capital Advisors (I) Pvt Ltd. Please go ahead.

S. Vijayaraghavan: Good evening. Congrats for a good set of numbers. One thing I wanted to know was what is the split up between GRIDCO sales and merchant sales for this quarter?

G. R. K. Prasad: For the quarter, GRIDCO sales are about 67 million, 272 million other sales.

S. Vijayaraghavan: Okay, my second question is in terms of Indonesia. What sort of cash outflow so far we have done for Indonesia mine?

G. R. K. Prasad: About USD 4 million.

S. Vijayaraghavan: It is totally till date?

G. R. K. Prasad: As on date.

S. Vijayaraghavan: Okay, how much more we will pay.

G. R. K. Prasad: Minimum stake of 75% and maximum of 90%. At 90% stake, the outflow is about USD 18 million, which could take place in the next year.

S. Vijayaraghavan: Sure, thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Mr. Sameer Agarwal from Batlivala & Karani Securities India Pvt. Ltd. Please go ahead.

Sameer Agarwal: My question is regarding your Zambia acquisition. I just wanted to check out what is the competitive scenario when we acquired this particular stake, who are all the competitors and who are the second lowest bidder over there?

G. R. K. Prasad: Well, it was to start with pretty competitive, about 11 participants participating in the global tender. Final short-list was 3 parties. And the second bidder after us was Vedanta.

Sameer Agarwal: Okay, what was the difference between your bid and Vedanta's bid?

G. R. K. Prasad: We don't know for sure. This was not made public.

Sameer Agarwal: Okay, and, what is the operating environment in Zambia as on date. How much they are producing and what is actually the problem over there. Why The Zambian government was asked to get a private partner?

G. R. K. Prasad: Well, it is like this. Addressing the low-grade coal became a big issue for Zambian government. Because that low-grade coal when it was being dumped around was going for self-combustion and creating certain environmental issues, which called for a proper environmental management systems and second thing is that the Government wants to divest to promote private sector investment in the mining sector.

Sameer Agarwal: How much coal are they producing from the same mine as on date?

G. R. K. Prasad: No, they are not operating now. They were operating some time ago, they were producing around 3 to 4 lakh tonnes per year.

Sameer Agarwal: Okay, and how many workers do they have right now?

G. R. K. Prasad: They have work-force of about 550 people and contract people of about 180 people.

Sameer Agarwal: Okay, thanks.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor back to Mr. Trivikrama Prasad of Nava Bharat Ventures Limited for final remarks. Over to you sir.

P. Trivikrama Prasad: Thank you very much and I hope all your questions are answered and you are always welcome to question us any time you would like to get any further clarification and thank you very much.

---

1. *This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.*
2. *Any of the statements made above may be construed as opinions only and as of the date. We expressly disclaim any obligation or undertaking to release any update or revision to any of the views contained herein to reflect any changes in our expectations with regard to any change in events, conditions or circumstances on which any of the above opinions might have been based upon.*