



Q3 & 9M FY2011 Investors/Analysts Conference Call Transcript February 02, 2011

Siddharth Rangnekar: Good afternoon everyone and thank you for joining us on Nava Bharat Ventures Limited's Q3 & 9M FY2011 conference call. We have on the call today, Mr. P. Trivikrama Prasad, Managing Director, Mr. G.R.K. Prasad, Executive Director, Mr. P J V Sarma- Director of Strategy and Planning and Mr. M N Rao- GM (Finance).

The call will start with Mr. Vikram Prasad making his opening remarks and we shall then have the Q&A session. I now call upon Mr. P. Trivikrama Prasad to share his views

Vikram Prasad: Good afternoon everyone and welcome to the Nava Bharat Ventures Quarterly results conference call. You must have by now had the chance to go through our results.

At this point I would like to share the perspective on how each of our segments have performed during the Quarter and then share updates on our international ventures:

Power business:

The Power business continues to be the leading contributor to Nava Bharat's top-line and bottom-line and our performance thereby continues to get influenced by the dynamics of the merchant power market. The prolonged monsoon played a significant role in pulling the realizations down in Q3, the extent of which was lower than anticipated and reported by us earlier.

Low average power realizations per unit and marginally lower volumes due to unscheduled outage for a part of our generation capacity could be attributed as reasons for this subdued performance. The decline in merchant power rates was also due to increased availability of hydel power and active demand management by the State Utilities. Margins, to some extent, were also affected due to increase in cost of coal and Washery rejects.

We expect merchant power rates to stabilize soon given the period of peak demand for power. We draw comfort on this aspect from the concluded contracts till May 2011. Barring the effect of monsoon, if any, we expect that the merchant power rates should stabilize between Rs 4 - Rs 4.50 per unit on an average in FY2012.

The volumes of power sales should be better in Q4 FY2011 than that in Q3 FY 2011 as there is no planned outage.

The Company's subsidiary commenced the ground work for one Power unit of 150 MW at Paloncha while the 64 MW unit in Orissa is awaiting the environmental clearance before commissioning trials begin. The

Company will have the incremental volumes of power sale from FY2012 from the 64 MW unit. The second unit of 150 MW is awaiting the environmental clearance. The Company is also exploring power generation from alternative feed stock like natural gas at this location to leverage up on the infrastructure which is already in place.

The Company expects to derive an advantage over large power plants in the usage of low grade coal and Washery rejects for the new units and hence does not anticipate any issues on sourcing or costs of fuel for these units, notwithstanding the perceived fall in merchant power realizations to sub Rs 4 per unit.

International business:

The Zambian subsidiary has repaid sundry creditors, employee liabilities and miscellaneous liabilities and is restructuring the balance statutory liabilities and term liabilities so as to enable infusion of further debt funds from banks for meeting Capital expenditure for Mine revival and Power Plant. This has been facilitated through a shareholders loan from Nava Bharat. The Zambian company will commence the mine preparation from April through outsourcing and be ready for extraction and sale of high grade coal from October 2011 when the new Coal Handling and Processing plant would be ready for commercial operations.

The Zambian company has achieved considerable progress in PPA negotiations with ZESCO and the Government. Simultaneously the company has been pursuing for selection of EPC contractor for the proposed 300 MW power plant. Both these activities are expected to be completed by March/April 2011. Thereafter sanctions for debt financing and ECA financing along with Environmental clearance are targeted for completion by September 2011. The power plant is scheduled to be commissioned in Q1 of FY2015. .

The Laos subsidiary which is to implement a 100-125 MW Hydel power station has engaged a consultant to conduct Detailed Feasibility Study of the project post which a project Concession Agreement would be entered in to with the Government of Laos. This is envisaged to be done in about six months and following the Concession Agreement, project would be launched.

Ferro Alloys business:

The Company performed better in respect of Manganese Alloys in A.P. works while the overall profitability of this business was impacted by the fixed cost incidence in the Chromium Alloy unit in Orissa.

This Manganese Alloy business is set to improve based on firm demand from steel industry while alternative options are being considered by the Company to utilize the chromium alloy facility in Orissa.

Sugar business:

Unseasonal rains and a delay in commencement of crushing season have led to lower volumes and recovery.

An anticipated deficit of sugar globally and the high domestic production will lead to moderate to firm realizations going forward

We feel vindicated in terms of our cautious approach in launching power capacities which are critically dependent up on fuel security, falling finances of discoms and sobering merchant power rates all of which are borne out in the performance of the power industry in this quarter. Our intended power foray overseas with an integrated operation and better long term returns on investment should help us optimize our performance in this sector.

With that I have covered the key points of discussion during the Quarter and I would now like to request the Moderator to open the session for Q&As. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Subhadip Mitra from Edelweiss Securities Limited. Please go ahead.

Subhadip Mitra: My question was pertaining to the bifurcation of the power sales that we had between merchant and the other sales that we have, the grid power and so on. Please tell me the volumes and the rates that we realized on a net basis for the quarter.

GRK Prasad: Total sales that we made for the quarter was about 390 million units which includes merchant sale, power going to GRID and balance for captive consumption.

Subhadip Mitra: Is it possible to have the bifurcation broadly?

GRK Prasad: The Ferro Alloy unit consumed about 65 million units, sales to Grid roughly about 60 million units and the balance sold outside on merchant basis...

Subhadip Mitra: Okay.

Subhadip Mitra: The balance would be merchant power?

GRK Prasad: Yes.

Subhadip Mitra: Okay, and the respective realization number?

P. J. V. Sarma: The realization for Q3FY11 on average was Rs. 3.24 per unit and I would like to make here a point that the realization mentioned was net number and not the gross number. Any comparative analysis with other power companies would be meaningful only when net realizations are taken into account. I think when you are trying to make a comparison, it should be on apples to apples basis. The net realization of Rs. 3.24 per unit in Q3 FY 2011 is lower compared to the last year (which was about 4.99 per unit, say around Rs. 5 per unit) due to the reasons explained by our MD in his Opening remarks.

Subhadip Mitra: No, I completely agree Mr. Sarma. What I am trying to understand is that the bifurcation that you just gave me in terms of million units, the corresponding realization number if you can tell me that like for because Rs. 3.24 per unit is the average number, so only the number of units that we sell on merchant basis, what would be your net realization number, and for GRIDCO and for captive? For captive also you would have a transfer price?

GRK Prasad: The net realizations for merchant sales is Rs 3.35 per unit. The net realizations for captive consumption is Rs. 2.75 and as far as GRIDCO is concerned it is about Rs 2.90.

Subhadip Mitra: Okay. And going forth, for Jan-Feb-March I presume we would have already signed contracts, what would be the range that you are looking at, or do you have like say in Jan and Feb you are looking at maybe something lower and maybe March onwards higher, anything of that sort?

P. J. V. Sarma: . The January realization was about Rs 3.4 per unit. The contracted figures for February and March are Rs 3.75 per unit and Rs 4.23 per unit respectively. For the first couple of months of FY 2012 the average rate contracted is Rs 4.3 per unit.

Subhadip Mitra: Rs. 4.3 per unit, but these are the gross numbers, right?

P. J. V. Sarma: No, The realizations mentioned are the net numbers.

Subhadip Mitra: So, Rs. 4.23 per unit for March is the net number which will be our top right?

P. J. V. Sarma: The trend in increase in merchant realization is clear and distinctive. We feel that trend is likely to continue in the summer months post March/April due to steep increase in demand, though we would like to be cautious in our approach.

Subhadip Mitra: Understood, sir is it safe to assume that then this is on a like-to-like basis from a volume perspective we would have contract for at least 265 million units for every quarter on merchant the rate that you gave 3.4 per unit to 3.75 per unit, 4.23 per unit, 4.3 per unit is roughly for 265 million units in a quarter?

GRK Prasad: That's about It

Subhadip Mitra: So, practically you have not kept anything even open for short-term, so if there is any volatile nature you can realize a better rate?

GRK Prasad: No, actually we contracted for the power that is available.

Subhadip Mitra: Okay, excluding the GRIDCO and captive

P. J. V. Sarma: Please note that from next year we also will have our Orissa Unit of 64 MW and for analysis of top line and bottom line this fact needs to be taken into account.

Subhadip Mitra: So for 4.23 per unit and 4.3 per unit you are assuming that 64 MW will also contribute to that?

GRK Prasad: No, not yet, I am talking about next year, it will be 228 MW

Subhadip Mitra: Okay, so that for 64 MW you are still open and you have not entered into any contract?

GRK Prasad: Yes that is right.

Subhadip Mitra: Understood, and in the 64 MW also there would be against 20 MW that will go to GRIDCO?

GRK Prasad: But it under a different scheme being taken up as an IPP. So what the government of Orissa wants is about 12% of the power generated should be made available to them at the rate being fixed by OERC, and balance power we are free to sell. So in effect what would happen is that once the 64 MW comes on stream, probably about 30 MW or so would be made available to GRIDCO, and balance we will be selling out.

Subhadip Mitra: Okay but 12%.

GRK Prasad: Out of the 150 MW.

Subhadip Mitra: That is the cumulative capacity coming up in Orissa?

GRK Prasad: That is correct.

Subhadip Mitra: Okay, so basically it was 10 MW out of the 64 MW you said?

GRK Prasad: It is not exactly 10 MW out of 64MW; it is to be taken as total 150 MW and then about 30 MW of that post commissioning.

Subhadip Mitra: Okay, understood. Sir, secondly our question was pertaining to the fuel tie ups that we have for each of our units, I understand that we do a blending of E-auction as well as coal Washery rejects and linkage, so if you can please tell me the realization of the rate numbers because I believe there has been some cost increase also that we are talking about?

GRK Prasad: The cost increase is marginal in the case of Washery rejects in Orissa. Our blend of coal is about 70% through linkages, 10% through e-auction and balance through Washery rejects.

Subhadip Mitra: So 20% is Washery rejects?

GRK Prasad: That's right.

Subhadip Mitra: But again, the blend would change depending on whether it is in AP or in Orissa?

GRK Prasad: The blend generally is similar in AP and Orissa. . In AP, you could say the e-auction is even lower.

Subhadip Mitra: So in AP, the linkage coal would be still around 70%?

GRK Prasad: It is about 80%.

Subhadip Mitra: It is 80%?

GRK Prasad: Yes.

Subhadip Mitra: And so e-auction would be how much in AP?

P. J. V. Sarma: From April 2010 till January 2011, the total quantity purchased through e-auction is approximately 60,000 tonnes.

Subhadip Mitra: This is at AP?

P. J. V. Sarma: In A.P the average rate is Rs. 1,665 per tonne for the above quantity of purchases inclusive of all costs. The transportation cost is negligible because the Paloncha plant is almost like a mine-mouth Power Plant.**Subhadip Mitra:** So, the Rs. 1,665 per tonne number has gone up by how much? Has it gone up by Rs. 200 or Rs. 300 or something?

GRK Prasad: That is the increased rate.

Subhadip Mitra: Yes, the increase in rate that is exactly what I am trying to understand.

GRK Prasad: The rate mentioned above was after the increase in the rate and you could say about Rs. 100 to Rs 150 per tonne has gone up on an average.

Subhadip Mitra: Understood, so it used be around Rs. 1,500 per tonne before which has become Rs. 1,665 per tonne now?

P. J. V. Sarma: That is correct. Because we are talking about an average rate from April 10 till January end and including the January because what we have mentioned is in December is including the January purchases of e-auctions.

Subhadip Mitra: Understood, so sir going forth since we are looking at there being an eminent coal crunch in the country, and I believe most of the power plants that have come up in FY11 are anyway looking at crunch in terms of the linkage coal. For our upcoming plants especially Orissa which is coming up in this

quarter itself, are we looking at any kind of a lower coal that might come in from Coal India and hence higher blending or something of that sort?

GRK Prasad: 64 MW Plant proposes to use Washery rejects as main source of fuel. As far as the increase in the price of coal is concerned, there will be some impact, but I do not think that would be material enough to cause concern.

Subhadip Mitra: So, again here it is a 70:30 kind of a ratio, 70% linkage, 30% reject or the other way around?

GRK Prasad: It would be 70% rejects and probably 30% through either linkages or e-auctions.

Subhadip Mitra: Either linkage or e-auction, so in case of washery rejects we have a firm contract tied up for a firm quantity.

GRK Prasad: Yes, we have.

Subhadip Mitra: And then sir what would be the price that I can assume over there?

GRK Prasad: Although the price is not fixed, it is a quantity contract. Price keeps changing, but I think corresponding price is what has been reported just now.

Subhadip Mitra: **Would** you be expecting washery reject prices to keep on going up progressively as there is a higher demand coming up?

GRK Prasad: Yes, I think it goes in sync with the linkage coal prices.

P. J. V. Sarma: I would like to add one important factor. As you know, these washery rejects cannot be transported very long distances due to lower calorific value and in view of this factor, it becomes uneconomical to do so. Economically, to use washery rejects, the power plants require to have boilers designed to utilise the same and they need to be closer to the mine washery. This is where Nava Bharat has got advantages in both the Paloncha as well as to a certain extent in Orissa. So, if you look at the washery rejects. there is not much of an economic logic for the collieries to transport it a long distance and sell. As such, linkage may not be a prerequisite for us since the economics alone make washery rejects availability much better. Due to our strategic locations near coal washeries and boiler design, we are advantageously placed in terms of fuel and I think this economic logic could be noted by the analysts. .

Subhadip Mitra: So, basically what you are saying is that washery reject prices may not go up exactly in tandem with linkage coal because there is....

P. J. V. Sarma: Yes. Economically and logically also, there will be no direct correlation between a coal price and washery reject price. The washery price could still be lower because there will not huge demand of washery rejects for long distance. And fewer plants are closer, to the mine mouths. All plants cannot use

the washery rejects whereas both our plants in Paloncha as well as Orissa have got the technology to use that.

Subhadip Mitra: Okay, fine, understood, but sir in case of the e-auction prices, that we would be using whatever roughly 20 to 30% there what kind of a price increase are we looking at?

GRK Prasad: At this time it is difficult to put a number.

Subhadip Mitra: Okay, but the average cost that we have seen this year?

GRK Prasad: Yes, that should hold.

Subhadip Mitra: That should hold, and what range would that be sir if you can tell me?

GRK Prasad: I think the number that has already been given should hold for the next year as well. That is our view. .

Subhadip Mitra: Okay, got your point and going ahead for the Paloncha 150 MW that we are coming up with there again sir, what would be the mix in terms of washery rejects and e-auction, similar?

GRK Prasad: Its 80% washery rejects and balance will be e-auction.

Subhadip Mitra: And again we have a firm quantity contract here, sir?

P. J. V. Sarma : I would like to add one more point to what Mr. GRK Prasad said... As you are aware now in Singareni collaries, they have opened a new coal washery recently. Now because of that washery reject availability has substantially gone up. Again if you just look back whatever we were mentioning about the economic logic, Nava Bharat is advantageously placed with regard to availability of washery rejects because of the expansion of washery capacity of Singareni . It has also started operations recently.

Subhadip Mitra: Understood, and you are saying that the washery is already operational?

M N Rao: Washery is operational,.

Subhadip Mitra: Sir, just one last question that I have which is primarily on the Ferro Alloy business that what would be the current EBITDA per tonne that we are doing here because we have been looking at losses for the last two quarters despite meeting more or less our volume targets, I just wanted to get a little understanding on that, it is the last question.

GRK Prasad: Manganese, the EBITDA per tonne is about Rs. 10,000.

Subhadip Mitra: And for Chrome?

GRK Prasad: We are not producing Chrome at the moment

Subhadip Mitra: So sir, here is fixed cost is what has given us a hit, sir?

GRK Prasad: Yes, that is right.

Subhadip Mitra: And can we have a rough number to it on a per month or a per quarter basis, what is the fixed cost?

GRK Prasad: About Rs.100 lakhs a month.

Subhadip Mitra: Thank you. That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Sachin Relekar from Tata Asset Management Ltd. Please go ahead.

Sachin Relekar: Sir, just one question. Now that the costs have moved up, you said that only the e-auction part of the coal has moved up above by Rs. 100 to Rs. 200 per tonne. We were actually assuming Rs. 2.3 per kilowatt hour in your production cost, or generation cost. Now, what is the new base and what kind of spread we are making?

GRK Prasad: There has been a reduction in current cost of production because of reduction of the fixed cost and interest cost, the current cost of generation which is fully loaded is about Rs. 2.15 per kwh

Sachin Relekar: Okay, so this is the cash cost?

GRK Prasad: . This is the full cost including depreciation.

Sachin Relekar: Including depreciation, okay.

GRK Prasad: Except for 20 MW of power generation in Dharmavaram,(which is based on imported coal where the fuel cost is about Rs 3.4 per unit) the average cost of generation works out to Rs 2.15 per unit after taking into account whatever increases that have already taken place. We do not expect that cost to vary much beyond that.

Sachin Relekar: 64 MW is waiting for environment clearances for trials to begin and in your assessment, could we actually go into commercial operations by first quarter of next year?

GRK Prasad: That is the plan we are working on, and it could be earlier too, but I think it is safe to assume first quarter of next year.

Sachin Relekar: Okay, sir the final question is on Zambia, you said the mine will be ready to produce by October 11, so is the infrastructure in place, and where you plan to sell this coal output, and what will be the quantity for the balance six months in the FY12?

GRK Prasad: Well, the infrastructure is already in place. As you know this was an operating mine. So, one way it helped us because much of the ground infrastructure is already there. What was required is only a new Coal Handling and Processing Plant which is getting erected now. That would go on stream by September 2011. We expect to extract and sell about 50,000 tonnes of high grade coal per month, so that gives us something like 300,000 tons of sale this year i.e FY12, and from the year after that we plan on doing it a million tonnes per annum for a couple of years before the power plant becomes operational. We'll see how the ramping up can take place beyond that. This coal is intended for use by the cement and other industries in Zambia and surrounding countries.

Sachin Relekar: Okay, so you are selling there itself, it is not going to be transported to the offshore port and that way?

GRK Prasad: Well, that is not a logical solution now because of the logistics cost.

Sachin Relekar: Okay, so what will be your coal grade like, what will be kcal per kg?

GRK Prasad: About 6,200 kcal per kg. At ex-mine it should fetch us around \$65 to \$70 a tonne.

P. J. V. Sarma: And just to add the point that is being said, there is a very unsatisfied demand for high-grade coal in Zambia, and as you are aware this is the largest mine in Zambia that we acquired. Right now, the requirement of high-grade coal in Zambia is being getting imported from Zimbabwe and few other countries, so they are all waiting for our mines to be commissioned and they can use ours. So actually there is a latent demand of 1 – 1.5 m tonnes from the existing plants of cement and other units. Taking into the expansion plans of the units operating, we expect the demand to increase to over 2 million tonnes, without taking into account the possible export to other neighboring countries. As such, you could observe that there will be operating cash flows due to sale of over 2 to 2.3 m tonnes of high grade coal sale during the period of implementation of Power Project.

Sachin Relekar: So, what would be our cost and margins for high grade sale in that case?

GRK Prasad: We are targeting a net profit and margin of at least \$10 to \$15, probably \$10 minimum per tonne of high grade coal, after a cost of production and other costs at about US\$ 45 to \$ 50 per ton.

Sachin Relekar: Okay, thank you.

Moderator: Thank you. The next question is from the line of Sanjeev Panda from Sharekhan Limited. Please go ahead.

Sanjeev Panda: It seems that there is some of the inventory pile-up in ferrochrome and ferro manganese, and at the same time if you can just give us a number what is the average realization that you have realized for Ferro Chrome, Silico manganese, and all the three Ferro Alloys?

GRK Prasad: Well just to correct you, the inventory actually got liquidated. We are now carrying a very minimal inventory level, and it is only in respect of manganese which is under production. As far as chrome is concerned the inventory is more or less liquidated at the end of December, and the other point which you asked is current realizations for Manganese Ore which is around Rs 55,000 per tonne.

P. J. V. Sarma: Ferrochrome stock is only 22 tonnes and Ferro Alloys is 649 tonnes.

Sanjeev Panda: Yes, about realization please?

GRK Prasad: Yes, Manganese Alloys are now fetching around Rs. 55,000 per tonne and Chrome of course there are no sales that are going on but the current realization is about Rs. 63,000 to 64,000 per tonne.

Sanjeev Panda: Okay, looking at the current merchant power scenario what is the outlook that you are looking at, one is that whether there is imported or outsourced coal will that be a right way of going ahead because of pricing pressure that we are already seeing and what is the strategy that Nava Bharat is going to adopt looking at this and going forward how you are going to play or are you looking at some other options where you can try to find some part of your towards PPA basis and mix off or you still hold that believe that the prices will continue to be more profitable and in future you will hold the current strategy?

Vikram Prasad: For the existing plants, we would like to deal with the merchant power and right now the prices are attractive even at Rs. 4 per unit, I mean attractive in the sense that we would be able to get a decent return. But for the new plants we are trying to go into Case 1 bidding for the local utilities. Wherever we are putting up the new plant at least for 50 to 60% of the capacity would be under this category, so that we would be more protected. I think we expect the prices to be around Rs 4 to 4.5 depending upon the rainy season, monsoon. I mean some of them may be even gross at a point, while prices we are giving generally are on net basis.

Sanjeev Panda: Okay, and sir some of our peers and in the recent results when they came out they said that they are still able to get a realization of Rs. 4 to 4.5 per unit even in the last quarter whereas we realized little less than Rs. 4 per unit in our merchant power basis, so is it because it being specific to the reasons or specific to some of the SEB's - State utilities that you are selling where the realizations are not up or what is the scenario taken, just throw some light on that.

Vikram Prasad: If we do not have this power going from one grid to another grid, that is, if it is within the local utility, maybe they are able to realize the price mentioned. If they have to sell to other states, they have to pay minimum for line charges, which will bring down the net rates.

GRK Prasad: To put a correct perspective I think all the players in the merchant power are going through the same phase of price discovery through the traders or bilateral transaction. It is not possible that some generator gets a higher rate and the other generator a less rate. What would happen as Mr. Vikram pointed out would be that the generator might be an embedded customer in a given grid in which case the realization could be net of various transaction charges, but mostly as we see it the rates at what we have obtained follows the pattern of bilateral transactions at different points of time. So I do not think we were lower or somebody else is higher, excepting the case where it is an embedded customer.

P. J. V. Sarma: As we were mentioning earlier in the conversation about the gross and the net, maybe some generators are showing the gross in the top line realization in the results and other charges they will be putting across in the other charges like transmission charges separately.

Sanjeev Panda: Okay sir, thanks for the time being, if I will have any question, I will come back to you.

Moderator: Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings Pvt. Ltd. Please go ahead.

Bhavin Chedda: Yes, two-three questions, first mainly on the Zambian side, what will be the cost of production you mentioned sir, whole cost of production?

GRK Prasad: The cost of the production at mine is about \$45 per tonne and we expect to sell at about \$60 per tonne but current prices are better than \$60 per tonne but I think \$60 per tonne is more or less correct.

Bhavin Chedda: Okay, and basically on the investments which have been done if you can explain I believe there was Rs. 96 crore investment in Nava Bharat Singapore PTE and Nava Bharat Singapore PTE has taken equity in Zambia, so overall if you can explain how the investment structure is working, how much has been directly made investment from standalone books, how much the subsidiary is invested?

GRK Prasad: Well! Nothing has been invested directly from Nava Bharat Ventures into Zambia. It is going through the Singapore subsidiary only and Singapore subsidiary also has invested by way of a shareholder loan at this point of time, so no equity investment has flown in as of now.

Bhavin Chedda: So shareholder loan is for how much sir?

GRK Prasad: It is about US \$26 million, what was originally intended as a purchase price for 65% stake and is now put in as a shareholder loan into the company.

Bhavin Chedda: Okay, and that is for 65% right?

GRK Prasad: That is right.

Bhavin Chedda: Okay, but why is it standing as a shareholder loan and not converted into equity stake, any regulatory approvals or something pending or whatever?

GRK Prasad: No, it is like this. We have got the 65% stake by not infusing any money, so we are taking the position that shareholder loan be advanced and which could be repaid or converted in equity at our discretion. Over and above \$26 million was our original commitment of about \$110 million stands that is yet to be infused.

Bhavin Chedda: So total commitment is \$110 million?

GRK Prasad: Total commitment is about \$136 million if you recall of which \$ 26 million was supposed to be the purchase consideration to be paid to the vendor. Instead of paying to the vendor we actually infused that money into the company as a shareholder loan.

Bhavin Chedda: Okay, and that has been paid off for clearing the liabilities, so now the structure will be like there will be debt raised in that company which will be used for Zambia CAPEX and all?

GRK Prasad: Correct.

Bhavin Chedda: Okay, and sir to start this coal mine how much you think must be your CAPEX figure?

GRK Prasad: About \$50 million

Bhavin Chedda: About \$50 million US dollars. Okay, sir this was on Zambia. On the other overseas project I believe you had something in Indonesia so if that is going forward?

GRK Prasad: Well, in Indonesia the status quo continues, we are pursuing for getting our mine rights or get our money back with some liquidated damages. Both processes are through court or executive intervention.

Bhavin Chedda: Okay, and how much you have invested sir?

GRK Prasad: We spent a little less than \$5 million that includes whatever money that was paid as well as expenses.

Bhavin Chedda: Okay, so basically the matter is in the Court and you are trying to recover this money?

GRK Prasad: Yes, and not only that, there are two approaches which we are pursuing, one is to get hold of the mine itself through judicial and executive intervention, or get the money invested plus some premium over that. Either of the things could happen but the process might take some time. What is important is that money is secured, that is what I am trying to say.

Bhavin Chedda: Okay, and what will be the debt figures and cash figures in the book now?

GRK Prasad: We have a debt of about Rs.160 crore and cash on a standalone basis is about Rs 510 crore.

Bhavin Chedda: This Rs.160 crore is excluding FCCB right?

GRK Prasad: That is right.

Bhavin Chedda: And are consolidated numbers different or more or less same.

GRK Prasad: Consolidated cash will be about Rs.100 crore higher.

Bhavin Chedda: That is the stake sale which you did in the Andhra Pradesh project?

GRK Prasad: That is one source, then we have investments that we made which is remaining unutilized, those things will add up to that.

Bhavin Chedda: So consolidated debt is same but the cash is Rs.100 crore higher?

GRK Prasad: You can say the net cash as far as subsidiaries go will be about Rs.100 crore and so debt is Rs.160 crore and cash is about Rs. 600 crore.

Bhavin Chedda: Right, and sir you had sold stake in this Andhra Pradesh project via subsidiary so that cash has already been received, that was Nava Bharat Energy Limited.

Bhavin Chedda: Okay, sir that is already through, you sold 26% stake in a subsidiary.

GRK Prasad: No, it is actually 50% stake for which we entered in for sale of which we realized Rs.84 crore and that money is there, balance money will be coming after the project achieves certain project milestones.

Bhavin Chedda: Okay, so that Rs.84 crore is being kept right now in subsidiary or Nava Bharat itself has received 84 crore?

GRK Prasad: It is in a subsidiary.

Bhavin Chedda: It is a subsidiary that is the reason that consolidated cash is Rs.100 crore higher, right?

GRK Prasad: That is right to some extent.

Bhavin Chedda: Okay and the balance when the project starts you may receive another Rs.80-90 crore?

GRK Prasad: That is right, Rs.85 crore.

Bhavin Chedda: Rs.85 crore, okay sir thanks a lot sir.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from J.P. Morgan. Please go ahead.

Pinakin Parekh: My question is basically on coal. Can you give a sense of how are you seeing the coal dispatches from Coal India in terms of your requirement in that, do you have to focus more on the e-auction market and do you see this trend changing over the next six months to one year because obviously Coal India is having severe production issue at its mine.

Vikram Prasad: Yes, we have not seen so much in Andhra but in Orissa in Mahanadi coal fields we find this problem. They are not able to increase their production and slightly there is increase of e-auction because they have to maintain supplies. We find that the price of this e-auction coal is slightly on the higher side and as far as production goes Mahanadi coal fields have not increased their production in the past couple of years I think, between last year and this year...

Pinakin Parekh: So do you see this I mean from your company's point of view this thing continuing for the next few quarters and therefore the blended coal cost only increasing as e-auction coal cost moves up with imported prices and Coal India linkage supplies continues to get little bit weak?

Vikram Prasad: Yes, to a certain extent. I think we will have to see unless Coal India increases production and I mean they have to, I think now that there is also pressure on them to increase production and they are trying to work on it. Maybe it will not be there for the next couple of quarters but definitely they are expected to perform better as far as production goes in these areas.

Pinakin Parekh: I am just trying to understand that for Nava Bharat for your coal cost because there are different grades and everything your blended e-auction coal cost will be what 70 to 100% higher than the linkage coal price or even lower than that?

GRK Prasad: Much lower, it is about 30% higher.

Pinakin Parekh: Okay, because we have been hearing that you know the spot e-auctions have been taking at a premium of 80 to 100% to linkage price so then you mean to say that for lower grade coal the premium is lower or that is?

GRK Prasad: It is, there were instances where it was much more but average we could assume may be about 30% higher than the linkage price.

Pinakin Parekh: 30% and do you expect this trend to continue for you company for the next two-three quarters or do you think that premiums will increase for the E and F grade?

GRK Prasad: I do not think it will increase. One point which you guys have to reckon is that whatever increase that happens, because of cost push effect is actually very minimal on a blend basis.

Pinakin Parekh: Okay, understood sir, thank you very much.

Moderator: Thank you. The next question is from the line of Jay Kakkad from Alchemy Share and Stock Brokers. Please go ahead.

Jay Kakkad: Good afternoon. Sir, any specific reason why this sale to GRIDCO has gone up to 60 million units from a run rate of 45 million units?

GRK Prasad: No, I think GRIDCO is not fixed, it is about 20 MW only, sorry actually it was a mix up of GRIDCO and AP Transco for the relevant period but the sale to GRIDCO is about 20 MW per month only.

Jay Kakkad: So 45 million units only?

GRK Prasad: Yes, that is about it.

Jay Kakkad: So this AP Transco the realization there are also Rs. 3 per unit?

GRK Prasad: AP Transco actually gave a little more, it is about 3.50 per unit, actually between the two Grids, our net realization was 3.35 per unit.

P. J. V. Sarma: I see the average of 3.35, actually AP has given us slightly better realization this fiscal year.

Jay Kakkad: Okay sir, sir in the Zambian acquisition when we remove the upper seam the low grade coal there were incidences before of this low grade coal catching fire so is there an infrastructure now in place that we can store this upper seam and then sell the lower seam?

GRK Prasad: We will be actually preparing the mine to do exactly that. The process involves removal of these low grade coals, having it stacked properly and compacted so that the self-combustion is prevented and this coal will be kept for at least two years for the power plant to commence and then we would start using that coal.

P. J. V. Sarma: Consolidation is happening actually there as of now.

Jay Kakkad: Okay, thank you.

Moderator: The next question is from the line of Amit Golchha from Emkay Global financial Services Ltd. Please go ahead.

Amit Golchha: A couple of questions, one is the 64 MW unit which was likely to commission what I had assumed is we had a PPA with a trader for the next three years at some base rate, that stands as it is today?

GRK Prasad: It stands, yes.

Amit Golchha: Okay, what is the base price there sir?

GRK Prasad: It is about Rs. 4 per unit but that depends on the function of market as well, so the trader can always come back saying the Rs.4 per unit is not being discovered. What the trader is confident is on an average he should be able to get the rate for us.

P. J. V. Sarma: I think the rate that what we are explaining about was Rs.4 - 4.5 per unit, I think that should hold good even in this case after all.

Amit Golchha: Okay, and this contract is for next three years?

GRK Prasad: That is correct.

Amit Golchha: Okay, secondly you said that you have already acquired 65% stake in Zambian company without paying anything and the stake holder loan which you have extended \$26 million that either can be repaid or can be converted into equity?

GRK Prasad: That is right.

Amit Golchha: So if that is converted in equity, would that increase your stake into the company or it would be?

GRK Prasad: No, the conversion of equity would go co-terminus with our co-shareholder's loan as well. But the loan from our partner also is kept pending, so if at all conversion takes place it will be a proportionate conversion so that the ratio of shareholding does not change.

Amit Golchha: Okay, so their loans also will be converted in equity?

GRK Prasad: That is right.

Amit Golchha: Okay, so in that case it might not be beneficial for us to convert it into equity because the....

GRK Prasad: Yes at this stage we feel keeping it as a shareholder loan makes better sense.

Amit Golchha: Yes, okay and would it be possible for you to comment on the transmission charges, I mean if it is processed to one state or two states how much is this normal transmission charges which are getting levied as of now?

GRK Prasad: Well, there are intermediary charges like state transmission network charges and then Central transmission network charges then you have State Loan Dispatch Center charges and the Interlink charges. These are the four charges which would get added to your rate of power sale. So depending on how the power flows either within the region or in between regions, it could vary between 50 paise to Rs. 1 per unit.

Amit Golchha: Okay, so minimum it would be if it is processed, it is processed through one state it would be 50 paise?

GRK Prasad: Yes, if it is like in the same region maybe around 50 paise.

Amit Golchha: Okay, and lastly just wanted to understand the environmental clearance part in case of 64 MW, do you explain that, is it the complete environmental clearance or is some part of the clearance what it is exactly basically.

GRK Prasad: No, it is like this, in Orissa a certain area is under review, the whole district. That review is likely to be completed by a committee constituted by the Government. Once that is done then the clearance will be given for going ahead, that is what is being awaited.

Amit Golchha: Okay, and sir what will be the breakeven point for Ferro Chrome business taken realizations?

GRK Prasad: On a fully loaded cost is about Rs. 65,000 per tonne.

Amit Golchha: Okay, so we are almost near about there.

GRK Prasad: We are about near but I do not think it makes us get into that traction.

Amit Golchha: Yes, because it is only this break-even.

GRK Prasad: Anyway we can sell the power, right?

Amit Golchha: Yes, thanks a lot, all the best for the future.

Moderator: Thank you. The next question is from the line of Kulbushan Kalia from Canara HSBC Life Insurance Life. Please go ahead.

Kulbushan Kalia: Good afternoon, Sir in the Zambian coal mines we will be storing the higher quality coal initially for the first two years.

GRK Prasad: No, low quality coal.

Kulbushan Kalia: Low quality coal, sorry, we will be storing for the first two years and the high quality coal will be selling outside, now you said the cost of production per tonne would be somewhere around \$10 per tonne, so.

GRK Prasad: No, cost of production is about \$40 to 45 per tonne.

Kulbushan Kalia: Yes, I am sorry, yes \$40 to \$45.

GRK Prasad: And \$10 to \$15 per tonne is profit before tax.

Kulbushan Kalia: Okay, fair enough. Sir this \$40 per tonne, would we be in the scenario for the first two years wherein we will be spending \$80 for extraction of 2 tonnes of coal and we will be selling only one tonne out of that.

GRK Prasad: No, we said \$40 to 45 is the cost per tonne of high grade coal, so whatever two tonnes or whatever being removed as low grade coal, the cost is included there.

P. J. V. Sarma: Probably it needs a little bit of explanation. For every tonne of high grade coal extracted 2.5 tonnes of low grade coal is generated, so as Mr. Prasad was mentioning if \$45 is the cost of extracting one tonne of high grade coal, so when we are expecting one tonne of high grade coal automatically 2.5 tonnes of low grade coal will come as a byproduct. Basically byproduct does not cost anything now, that is what we indicated, two and a half years till the power plant gets operational, we will be stacking it, and at the time when the power plant gets in production we will start using it and afterwards there is a ramp up of production of the high grade coal as well, as we are mentioning about it during the FY11-12 we will extract and sell about 0.3 to 0.4 million tonnes of high grade coal, after that next one year we are planning to sell about a million tonne each, so during the period of this period whatever all low grade coal that will be coal that will be extracted will be stored and consolidated and then kept aside for our production.

Kulbushan Kalia: Alright, fair enough sir, just one more question, sir what is the nature of your agreement with the power trader for the 64 MW because if the trader says that the price cannot be discovered then what options does the generator generally have?

GRK Prasad: It is a first right of refusal kind of a thing, so we can do alternative sale whatever we want to do.

Kulbushan Kalia: Okay, so then the trader does not have any obligation to pay you any fixed charges or anything in case he is not able to place up on?

GRK Prasad: No, it is not a take or pay kind of an arrangement.

Kulbushan Kalia: Alright, fair enough, thanks a lot, those were my questions.

Moderator: Thank you. The next question is from the line of Shubhatra Mitra from Jet Age. Please go ahead.

Shubhatra Mitra: Yes, just a clarification. Right now we have in Orissa 94 MW, you are coming up with a 64 MW. In earlier question you have said that we need to give 30 MW to GRIDCO, this 30 MW would be out of 158 MW, so currently we are giving 20 MW and another just 10 MW incremental from the 64 MW?

GRK Prasad: Correct.

Shubhatra Mitra: Okay, thanks a lot sir.

Moderator: Thank you. The next question is from the line of Viral Shah from Sushil Finance Consultants Ltd. Please go ahead.

Viral Shah: Hi, sir just one question for the FCCB conversions that we are planning to do now I think in this month I understand from the press release that we have gone to the FCCB buyers and told them to convert it, am I correct on my understanding?

GRK Prasad: No, actually the process is like we fix a date like a cut-off date up to when they can seek conversion. After that our right of conversion comes in so we automatically convert the FCCBs into shares by 28th February. So as on 28th February, the FCCBs become shares.

Viral Shah: Okay, and basically it is not that we have gone and asked them to convert it; it is just the right of conversion that triggers from 28th of February?

GRK Prasad: Yes, it is a process which involves a notice and which gives a cutoff date and so after the cutoff date we have to convert the FCCBs in to shares...

Viral Shah: But I think earlier the date was the same as 28th February, was it a little later?

GRK Prasad: No 28th February, that is the notice date, but as on 28th February the FCCBs cease to exist...

Viral Shah: Okay, sir second question is that on the margins if we look at our power margins for the nine months also it has been quite lower compared to earlier year so looking at the power scenario right now the realization is that you just motioned earlier do you still expect in Q4 the margins to remain subdued or do you expect it to improve in Q4 as well as next year?

GRK Prasad: Well they will improve over Q3 but I do not think we would be revisiting what was obtained earlier year, that is a bit optimistic but what we feel is the monsoon effect is an aberration, so next year should be better.

Viral Shah: Okay, and sir similarly for the Ferro business there is a fixed cost that we are incurring every month, and also because the inventory of Ferro Chrome has almost been liquidated so do we expect margins to improve over there in the next quarter and next year?

GRK Prasad: Not much signs are visible but what we are looking at a possibility whether we could look at a conversion arrangement from next year onwards just to keep the unit running and have the fixed cost recovered. That is because we have a higher power capacity at our disposal, so we can pursue that option. At the moment of course no decision is taken.

Viral Shah: Okay, thank you so much, thanks sir.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from Enam Securities Limited. Please go ahead.

Bhavin Vithlani: My question pertains to the coal, could you give us the details of what was the linkage price you received from the Orissa mines and the e-auction price of the Orissa and what was the weighted average price of coal. My second question is when we actually see the notification from the Orissa GRIDCO there actually the price varies from about Rs. 3.10 per unit to about Rs. 4.05 per unit so when the Orissa Grid price was better that how come we are opting for selling it through merchant and the last question pertains to the merchant where we are observing that there are some medium term tenders likely to put out for about two years, are we likely to bid in those tenders and what is our expectation on the same?

GRK Prasad: Well, on the cost front I will ask my colleague to give you. On the point which you raised about the GRIDCO's rates well there is an option to sell to GRIDCO at a particular point of time but you also need to factor the finances of GRIDCO as well, as you know what has been the history in terms of liquidating the arrears , our experience with GRIDCO is that the exposure should be minimal so it is better that we look at an alternative sale arrangement than being stuck with GRIDCO, that is one thing and thirdly, yes, we are looking at those medium period tenders to participate Our expectation is that they would possibly get closed around Rs. 4 per unit as delivered price.

P. J. V. Sarma: Can we get it off line about that, because at this time I do not have immediately break-up of during the current year the nine months e-auction and these three prices separately so I will just get back to you on that.

Bhavin Vithlani: No problem. I have one follow-up question with the same question, as you highlighted about the potential receivables from the GRIDCO then in such respect could you also throw light into which are the states where we are actually selling a merchant and of late we hear from the various Gen Cos that the receivables have been all in uptake, are we also experiencing the same?

GRK Prasad: Excepting GRIDCO, we do not have a problem.

Bhavin Vithlani: Okay, and which are the states where we sell merchant?

GRK Prasad: We are selling to various states including local that is A.P., Tamil Nadu, then we have contracts for part of the power to Rajasthan and West Bengal as well.

Bhavin Vithlani: And are the receivable days in the bracket of 30 days?

GRK Prasad: Yes.

Bhavin Vithlani: Okay, thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I will now like to hand the floor back to the management for closing comments, please go ahead.

Vikram Prasad: Once again thanks a lot for your questions and I hope you are totally satisfied, and I think a couple of questions you need some follow-up answers. Mr. Sarma or Mr. Prasad will be able to take them from you, and once again thanks for your participation.

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.*