



Nava Bharat Ventures Limited

Q1 FY14 Results Investor/Analyst Conference Call Transcript August 12, 2013

Moderator Ladies and gentlemen, good day and welcome to the Nava Bharat Ventures Limited's Q1 FY2014 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Janki Dholakia from CDR India. Thank you and over to you.

Janki Dholakia Thank you. Good afternoon and welcome to the Q1 FY2014 Conference Call. We are joined on the call today by Mr. GRK Prasad – Executive Director; Mr. T. Haribabu – CFO; Mr. MN Rao – GM, Finance; and Mr. PJV Sarma – Director of Strategy & Planning. The call will commence with observations from Mr. Prasad and that will be followed by an opportunity to put questions to the management. I would like to now call upon Mr. Prasad to share his views. Over to you, sir.

GRK Prasad Thank you Janki. Good afternoon everyone. Thank you for participating in this conference call. I trust that all of you browsed through our first quarter results and the release which has just gone out.

On a standalone basis the total income of the company in Q1 FY14 stood at ₹ 2,523.7 million and the profit after tax was at ₹ 502.4 million.

The average power realization was higher during the quarter by about 7% over the previous quarter, mainly propelled by higher captive power tariff in AP and marginally higher realization in sale to AP Grid, notwithstanding suboptimal performance in Odisha power units where captive consumption was nil preventing value addition, while in the alternative merchant power rates were also kept very low.

The higher tariff in the AP was neutralized to some extent by the fall in EBITDA margin due to higher fuel cost, which again is a result of higher usage of coal through E-auction and imported coal in place of linkage coal, and lower volume on account of maintenance outages.

The Zambian company has marginally ramped up the high grade coal sales volume which is projected at about 3 lakh tons in FY2014. We target to commission the Zambian power projects in Q4 FY2015, based on the current project progress.

The financial closure for debt finance of this project aggregating to about \$560 million is expected by the end of October 2013, taking in to account the credit processes by developmental financial institutions and large commercial banks from Africa and China.

We continue to evaluate various options regarding the proposed restructuring of the Odisha operations. This again is a long haul operation and we expect to come back with some progress soon.

The Ferro chrome conversion for Tata Steel which was stopped on account of some legal impediments in the supply of ore by Tata Steel have since resumed in July. At this point of time both the smelters are being operated for the conversion on the basis of chrome ore and reductant that is being supplied by Tata Steel. Because there was no conversion in the Q1 FY2014, there was no contribution from the smelting operations in Odisha.

The manganese alloy operations in AP have been steady but for the cost dynamics being impacted by increased captive power tariff in AP, Sugar operations actually followed the seasonal trend and we expect that would continue for the next quarter as well till the crushing season begins sometime in November.

With that I would now like to request the moderator to open the session for questions and answers.

Moderator

Thank you very much, sir. We will now begin the question and answer session. Our first question is from the line of Anup Kulkarni from Emkay Global Financial Services Limited. Please go ahead.

Anup Kulkarni

Sir, you have not reported the numbers of 150 megawatt Paloncha unit in these numbers I suppose?

GRK Prasad

No, they have not been consolidated yet. We have run the unit at about 80% PLF during the very first quarter, and the volumes and other metrics will be shared by my team.

M.N.Rao

We maintained the PLF at 80% and the generation was around 260 million units. We are happy to inform that the Subsidiary made profit before tax in the first quarter from the 150MW power unit.

Anup Kulkarni

But sir, the cost here then seems to be very high because the cost works out to somewhere around ₹ 5/unit?

M.N.Rao

No, cost is not working out to ₹ 5/unit. How did you derive this ₹ 5/unit cost?

Anup Kulkarni

Sir, The generation was 26 crore units. The profit would be about ₹ 0.80/unit, and you sold at ₹ 5.78/unit. So about ₹ 5/unit is the overall fuel plus fixed cost?

M.N.Rao

Yes, in first quarter the cost was a bit high at around ₹ 4.60 / unit.

Anup Kulkarni

This includes which all costs?

M.N.Rao

It includes all the costs, i.e cost of coal, interest, depreciation and excludes forex fluctuation.

Anup Kulkarni But then sir the net sale is not getting reconciled or does the ₹ 5.78/unit have some translation charges also?

M.N.Rao Yes, around 269 million units were generated but sale was around 229 million units only after auxiliary consumption and transmission losses. That is why you are not getting this.

Anup Kulkarni And this ₹5.78/unit is net tariff or gross tariff?

M.N.Rao It is net tariff.

Anup Kulkarni Ok. Can you please give the merchant tariff for especially AP, Odisha?

M.N.Rao Merchant tariffs in AP were around ₹ 5.41/unit.

Anup Kulkarni For 114 megawatt?

M.N.Rao Yes, for 114 megawatt station.

Anup Kulkarni Ok. And can you give us an update on the Zambian operation? How much have you spent, how much equity have you put in and the exact status of the construction there?

PJV Sarma The project is going as per schedule without any delay, and as for the physical project, we have completed around 40% of the project as of now and close to around \$170 million has been spent on that, which has been financed by close to about \$95 million from us and at about \$40 million coming from ZCCM, which is our Zambian partner. The balance we have raised a loan at the Maamba Collieries level from Standard Chartered Bank for about \$35 million. So you can take around \$170 million has been spent so far on the project.

Anup Kulkarni How much loan did you mention?

PJV Sarma \$35 million, a short term loan basically pending project finance sanction.

Anup Kulkarni Sir, balance amount was the consideration for the equity of our stake about 20...?

PJV Sarma I think we already put in about \$95 million and about \$40 million has come from ZCCM. The balance \$35 million has been raised as a loan.

Anup Kulkarni And sir, when is this financial closure likely?

PJV Sarma Financial closure as Mr. Prasad was mentioning may be around October, November. We are almost there in terms of the tying up of the credit approvals with a group of lenders from China, with insurance support from Sinasure, being the Export Credit Agency, then there are two DFIs like African Development Bank and DBSA, and then there is rest of the Commercial banks. It is like a club deal.

Anup Kulkarni Ok. And the high grade coal you said 3,00,000 tons for the full year?

PJV Sarma Yes, about 300,000 tons.

Anup Kulkarni And what is the estimate for next year?

PJV Sarma I think we are going to build up the high grade coal sales over a period of time because now the high grade sale definitely is slightly lower than our initial estimate. Mainly because a couple of the projects to which we are supposed to sell to have been delayed. For example cement is one of the major customers for us for high grade coal sales in Zambia and there is a delay in some of the larger cement projects which are going for expansion, so that it is a gradual build up of the capacities.

So may be around 300,000 tons in next year may be increased by about another couple of lakhs tons but for that we will take about 3 to 4 years. And the volumes may go up once we complete our power project, because now as we were mentioning, the low grade thermal coal is coming simultaneously. So we also need to build up of thermal coal stock now, pending completion of our power project, which we are targeting to be operational by Q4 FY2014-15. Till then we will be building up high grade coal sales gradually.

Anup Kulkarni And sir, one more question on the 150 megawatt Paloncha unit. Cost of generation of ₹ 4.60/unit is that likely to be the cost going ahead also or was it higher in Q1FY2014?

M.N.Rao It will be almost on similar lines for the other quarters also.

Anup Kulkarni So cost is slightly higher than what we estimated initially, right?

M.N.Rao Yes, slightly higher because of imported coal, USD/INR weakness, and interest burden.

Anup Kulkarni But you are importing from Indonesia only or which country sir?

M.N.Rao We are importing from Indonesia as well as from South Africa.

Anup Kulkarni And what is the landed cost of coal currently at Paloncha? Let us say 5,300 to 5,400 Kilocalorie coal?

M.N.Rao It is working out to something around ₹ 4,700 per ton.

Anup Kulkarni And what would be the heat rate of this plant sir?

GRK Prasad Station heat rate is about 2500 kilocalories.

Moderator Thank you. The next question is from the line of Ravinder Vashisht from IDFC Asset Management Co. Ltd. Please go ahead.

Ravinder Vashisht Sir, what would be the consolidated revenue and the PAT levels for the first quarter, because there are only standalone numbers which have been given?

GRK Prasad We have not done any consolidation. But on a very ballpark basis in terms of the Nava Bharat Energy India which operates the 150 megawatt unit, the revenue was about ₹ 132 crore.

Ravinder Vashisht And the loss in the Zambian operation sir, how much will that be?

GRK Prasad We will have the consolidated results shared separately.

Ravinder Vashisht Sure.

- Ravinder Vashisht** Sir, my second question is basically related to the outlook of the power plants in terms of what is the visibility that we have for the year going forward in for the power tie ups and what is the average rate that we have tied up power for including the Paloncha new unit of 150 megawatt?
- GRK Prasad** We have signed up for power sale for practically all surplus power in AP including the 150 megawatt unit upto May 2014. So the rate at which our team has been talking about are the rates which were agreed with the AP Grid.
- Ravinder Vashisht** I missed the rate what is the average price?
- GRK Prasad** The 150 megawatt unit, it should fetch us a net of 5.78/unit.
- Ravinder Vashisht** So that is the when you say net?
- GRK Prasad** ₹5.78/unit and the rate for surplus from **114** megawatt, and the 20 megawatt power units is about ₹5.4/unit.
- Ravinder Vashisht** And will the cost of generation be very different for both the plants sir the old and the new, or would it be around the same?
- GRK Prasad** It should be substantially different. It depends...the 114 megawatt plant has the linkage coal and blend of E-auction and washery rejects. Whereas the 150 megawatt unit predominantly uses imported coal. So the cost differential is higher on account of that.
- Ravinder Vashisht** Sir, also if you can just give a brief commentary on Odisha status? What are the sort of operations that we are having in terms of power plant, the commissioning of the 64 megawatt and the existing power plant?
- GRK Prasad** Well in Odisha we are in a peculiar situation where we have surplus power but due to transmission corridor congestion we are not able to move the power down south where the realizations would have been healthy. So at this point of time our dependency as far as surplus power is concerned is on North and West where the merchant power rates are very, very low hovering around ₹ 3, and also suffer from the transmission corridor constraint. So that being the case we have withheld the commencement of operations in the new 64 megawatt unit though it is ready for all practical purposes. So at this point of time, we cannot probably predict a healthy rate of power realization for surplus power in Odisha. We hope to see some kind of revival in those rates probably from October.
- Ravinder Vashisht** But has an understanding with the Government been reached sir on the power sharing?
- GRK Prasad** Well, the Government presently is in surplus so they do not bother what we do with that power. We plan is to use the open access route for the new 64 megawatt power plant to the extent possible for sale in an open access transaction or obtain concurrence from SLDC's for selling through IEX to see how the rates pan out and be in a state of readiness as and when the power rates pick up, which we expect probably to happen in the second half of this year.
- Moderator** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities Limited. Please go ahead.
- Mohit Kumar** Sir, is it possible to break up the power sold between Odisha and Andhra Pradesh?

MNRao We will send this to you offline?

Mohit Kumar Sure sir. And sir, regarding this new 64 megawatt, have we got the concurrence of SLDC?

GRK Prasad We have applied for open access. Told earlier we face transmission constraint as well as absolutely lower rate of power realization. These two have really held back the generation in that unit. What happens after the concurrence is obtained is a factor of how viable is that operation.

Mohit Kumar And do we need any clearance from the Government of Odisha for selling this power?

GRK Prasad No, We have been pursuing a Memorandum of Understanding with Odisha.

Mohit Kumar Sir, what was the coal cost at Orissa power plant and Andhra Pradesh power plant, can you give me the blended cost for each of these? Or can you just break the cost of material consumed for this quarter down to coal cost?

M.N.Rao Coal cost at AP is around ₹ 2.48/unit and Odisha is ₹ 1.74 /unit.

Mohit Kumar And my last question is regarding the volume of ferrochrome conversion, Can you please share the number for the month of July?

M.N.Rao We have started Ferro chrome conversion only in the month of July. During first quarter there was no conversion of Ferro chrome.

Mohit Kumar Can you give us the outlook on Ferro chrome conversion in this quarter?

M.N.Rao In this quarter we will be converting around 10,000 tons.

Mohit Kumar And from the third quarter it will be around the normal rate of 15,000 tons?

M.N.Rao It is something around 12,000 to 13,000 tons from the third quarter onwards.

Moderator Thank you. The next question is from the line of Anup Kulkarni from Emkay Global Financial Services Limited. Please go ahead.

Anup Kulkarni Sir, I had a follow up question on the power plant. Sir, looking at this 150 megawatt cost at around ₹4.50/unit to ₹4.60/unit, are we looking to tie up this power in the long term because these kind of rates at about ₹ 5.80/unit or so might not be available for long?

M.N.Rao As of now we have tied up for one year up to May 2014. Long term, the AP Transco is also not looking for at these rates.

Anup Kulkarni But in other southern states for example Tamil Nadu came out with bids recently so are you looking at those bids ? What is your strategy towards selling this power after let us say May 2014?

GRK Prasad We are looking at long terms bids as well but at this point of time being the new unit and we require some kind of stabilization. We have not pursued beyond going through the AP contract. Probably in the months to come we would definitely respond to those bids as and when the distribution companies come up with specific bids.

Anup Kulkarni Can I get the cost breakup of this ₹ 4.60/unit, how much is coal cost and how much is fixed cost?

M.N.Rao We will get back separately on this.

Moderator As there are no further questions I would now like to hand the floor back to Mr. Prasad for closing comments. Over to you, sir.

GRK Prasad Thank you all participants. With this we conclude and if you have any further questions you are all free to send us a mail or send a communication, on which we will be happy to revert.

Moderator Thank you. On behalf of Nava Bharat Ventures that concludes this conference call.