



Nava Bharat Ventures Limited

Q4 & FY14 Results Conference Call Transcript

June 3, 2014

CDR India: Good afternoon to all of you joining us today and welcome to the Q4 & FY14 conference call. We have on the call today Mr. G.R.K. Prasad – Executive Director; Mr P. J. V. Sarma-Director; Mr. T. Hari Babu – CFO; and Mr. M N Rao – VP, Finance.

I will request Mr. Prasad to share his perspectives on the operating performance of the period and the status of the Project in Zambia in particular. This will later be followed by a Q & A session where queries will be addressed by the management.

A note of caution, some of the statements being made on today's call could be forward looking in nature. And the Company and the members of the management do not undertake to update them later in the light of changed circumstances.

At this stage I would now like to call upon Mr. Prasad to share his views.

G.R.K. Prasad: Good afternoon everybody. Thank you once again for being with us today. I hope you would have had the opportunity to review our annual results and the press release that followed.

The salient features of the results can be summarized below;

- The consolidated financials have improved over the previous year mainly on account of domestic subsidiary power business contributing to the turnover and profit while the overseas operations had reached break-even levels.
- Stand-alone profitability was aided by steady volumes of power despite the maintenance outages and backing down of generation by the Grid in AP
- Ferro alloy prices were range bound and maintained relative profitability *vis a vis* sale of power in AP in Q4 though competitive prices of sugar impacted the profitability.
- Depreciation charge of about Rs 12 Crs on account of new 64 MW power unit in Odisha affected the profitability without corresponding income
- Financial costs for the debt drawn in Q4 to fund the overseas equity marginally impacted the Q4 profitability



Outlook for the current year can be summarized below;

- Merchant power business in AP is expected to be steady with new contracts having been entered in to till May 2015 for the sale of surplus power.
- Tata Steel has, following the orders of the Hon'ble Supreme Court, suspended supplies of Chrome ore. Consequently the Ferro Chrome Unit will be produced on Company's own account from June 2014 till such time Tata Steel resumes mining and supplies of Chrome ore.
- The consolidated power business will continue to be aided by the operations of Nava Bharat Energy.
- The Zambian Company hopes to achieve higher sales volume of about 400,000 MT in FY2015 and improve upon its cash break even performance of FY 2014.
- The Zambian Company expects to achieve the Debt Financial Closure in H1 of FY 2015 and is currently in financing document negotiation phase.
- Land allocation for the Commercial Agriculture projects in Tanzania, expected during FY 2015 will enable pilot project being launched soon.
- The Hydel power project in Laos is expected to receive the Government Approval for the Concession Agreement and PPA during FY 2015 following which the investment plans will be finalized.

I would also like to state that investment in both these projects in Tanzania and Laos are at a nascent stage and can only be finalized after substantial progress is achieved.

With that, I would like to request the moderator to open the session for question and answers.

- Moderator** Ladies and gentlemen we will now begin the question and answer session. Our first question is from Shirish Rane of IDFC Securities.
- Shirish Rane** Could you provide the financials for FY14 for the Zambian subsidiary- Maamba Collieries in terms of Sales, EBIDTA, PAT or loss?
- G.R.K. Prasad** The total income for Zambian subsidiary for FY14 was about \$14.9 million and a small cash profit. After non-cash charge of depreciation and amortization expense for the cost of development expenditure it resulted in a loss of \$3.5 million which was actually down from about \$11 million in the last year. The Overseas operations through the Singapore Subsidiary were almost breaking even after adjusting for minority interests.
- Shirish Rane** So effectively Nava Bharat Singapore would have had a positive number?
- G.R.K. Prasad** Roughly, yes.
- Shirish Rane** That is how the breakeven happens?
- G.R.K. Prasad** That is right after taking in to account the minority interest.
- Shirish Rane** When I compare the standalone and consolidated numbers, I see that there is an amount of Rs 60-65 crore stated in the Other Income of consolidated numbers. Is this additional amount pertaining to Maamba or does it pertain to the Singapore entity?

G.R.K. Prasad The Other Income is more derived by the domestic and the Singapore entity. Singapore entity has investment income that is classified there and we have domestic subsidiaries like Nava Bharat Projects and Brahmani Infra Tech where a part of the income related to interest on bank deposits or liquid investments.

Shirish Rane So these three entities- NBV Singapore, Brahmani, and NBV Projects would have contributed to that other income?

G.R.K. Prasad Yes. Additionally, it also related to the management service income that the Indian company had derived out of the project management services and the technical support services.

Shirish Rane For Maamba Collieries?

G.R.K. Prasad Yes.

Shirish Rane How much would that be approximately?

G.R.K. Prasad It was about Rs. 13 crore in Q4 which was actually billed at the year end.

Shirish Rane So it is accruing for 4 quarters, but billed in fourth quarter and hence booked in fourth quarter?

G.R.K. Prasad That is right.

Shirish Rane Will it be recurring in nature? Would there be some kind of income next year as well?

G.R.K. Prasad Yes because this is a continuing service which Nava Bharat Projects provides to mamba Collieries during the implementation phase. So probably we would have the same number in the current year also.

Shirish Rane So you can derive such an income till the time the project is under implementation?

G.R.K. Prasad Yes.

Shirish Rane There is Rs. 300 crore share application money in the consolidated account. Does this share application money consist of the investments which have been put in by the Maamba Collieries in lieu of the financial closure debt drawdown or is it our share of equity investment in the Collieries for the power plant?

G.R.K. Prasad Share application money was actually being treated as shareholders' loan.

Shirish Rane So it is the shareholders loan?

G.R.K. Prasad Yes. It is more like shareholders' funds in Maamba Collieries. Pending financial closure, we are dealing it as shareholders' loans.

Shirish Rane Once the financial closure happens will it come back?

G.R.K. Prasad It is actually project equity only. Once the financial closure is done, we may convert that into equity.

Shirish Rane Ok. Till the time the financial closure does not happen, it is lying as a shareholders' loan. Once the closure is done, you will convert it into equity. So the money would not come back, but will change heads from shareholders' loan to become shareholders' equity in the project essentially.

G.R.K. Prasad Correct.

Shirish Rane In the press release it is mentioned that the construction is about 60% complete with respect to the Zambian project. So should we expect the project to get commissioned by first quarter of FY16 or will it take more time?

G.R.K. Prasad The commissioning is being targeted in the first half of FY16. Our guess is probably it might happen in the second quarter.

Shirish Rane Ok. Would the plant be running somewhere between first and second quarter?

G.R.K. Prasad The issue which is affecting the project is the delayed financial closure. Now we have a complete visibility for the proposed financing. The situation is pretty advanced and unlike the past we now have the sanctions behind us and we are now talking about document negotiation by the financing institutions and banks for the facilities sanctioned. So that is of course as financing documentation goes we will take about 3-4 months, but we are expecting the debt drawl to happen in H1.

Shirish Rane So the debt drawl would happen in H1?

G.R.K. Prasad Yes. It would happen in H1.

Shirish Rane With respect to the Tata Steel mining ban, you mentioned that the Company would be producing on its own account. So will the Company buy ore from the market and convert it into Ferro Chrome and then sell it again to Tata Steel. Or will it be sold in the market. What will be the arrangement?

G.R.K. Prasad We will have to sell on our own account. We will buy the ore from OMC through E-auction and will sell the finished product through direct sales. It is essentially not the most efficient way of working on Ferro Chrome. But given the dynamics, we have to probably take that step and utilize the operating facilities. Further, we have to wait for chrome ore mining issues to get resolved by Tata Steel which is seriously engaged in getting the same resolved in 2-3 months.

Shirish Rane Is it economical for us when we convert the ore into chrome? Can we make margins on it or there will be some contribution but no margins at the net level? How is the economics with respect to this?

G.R.K. Prasad I think you need to look at the plant from two different aspects. One is the usage of power which is otherwise stranded and other is the fixed cost in terms of smelters which has to be fully recovered. So our present target is to achieve both. Though the transfer price for power is stated and the tariff is agreed, its actual realization would pan-out at around Rs.3-3.50 per unit. It would leave some contribution for

power, but as far as Ferro alloys is concerned, it is more like fixed costs being recovered.

Shirish Rane So it is not a bad thing to have in lieu of the stoppage, but it is also not the ideal position?

G.R.K. Prasad Correct. Instead of keeping it completely idle, probably this is the better solution. But we would like Tata Steel to resolve this issue as soon as possible and I believe they are very close in getting the issues sorted out one by one for iron ore, manganese, etc.

Shirish Rane The 64 MW Odisha plant was shut for the quarter? And is shut currently as well?

G.R.K. Prasad Correct.

Shirish Rane The full year depreciation was provided in the fourth quarter?

G.R.K. Prasad That is right.

Shirish Rane From now onwards will the Company have to provide depreciation in its accounts, since it has been provided for the last year?

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

Shirish Rane Will it be on pro-rata basis for the quarter and not the whole amount which you provided in the fourth quarter?

G.R.K. Prasad Yes. We had some debate with our auditors with respect to depreciation, whether to charge depreciation or not as the unit though was ready did not operate. The balance of judgment was in the favor of providing the depreciation. Therefore, it has been provided in the fourth quarter, but from now on, it will be provided in every quarter.

Shirish Rane There is no debt on this plant. So there was no interest expense booked in this quarter or for the full year?

G.R.K. Prasad No.

Moderator Our next question is from Ravinder Vashist of IDFC.

Ravinder Vashist Could you provide an update with respect to the Odhisha plant? Further, what sort of tie-ups have we done for the forthcoming year with respect to the Andhra Pradesh plants?

G.R.K. Prasad It is actually surplus power which has again got contracted with the AP Grid from both our operating plants which is Nava Bharat Ventures operating plants and Nava Bharat Energy which is the subsidiary plant. The net realization would be about Rs 5.20 per unit

Ravinder Vashist Rs. 5.20 per unit is the net for both the plants?



G.R.K. Prasad Yes.

Ravinder Vashist Is this for a period of one year?

G.R.K. Prasad Yes. This is upto May 2015.

Ravinder Vashist What are the financials of Nava Bharat Energy for last year.

G.R.K. Prasad The profit after tax was close to Rs. 85 crore.

Ravinder Vashist The Zambia plant which would start operating in FY16, would it be profitable from year one itself considering all the PPA tie-ups are in place?

G.R.K. Prasad Yes. We expect so because it is actually a cost plus kind of a PPA.

Ravinder Vashist Is there a take or pay sort of clause?

G.R.K. Prasad Yes. there is a take or pay clause.

Moderator Our next question is from Mohit Kumar of IDFC Securities.

Mohit Kumar Could you please share the PLFs of Odisha, AP and power plants in our subsidiary?

M. N. Rao Our AP plants worked almost at 97% PLF, and Orissa plants at 43% PLF during Q4.

Mohit Kumar How much it would it be for the year?

M. N. Rao For the year, 114 MW at AP worked at 92%. 20 MW at 84% and Orissa 94 MW plants at 47% PLF. 150 MW of Nava Bharat Energy has worked at 85% PLF during Q4 and at 79% for the full year.

Mohit Kumar What is the sales and EBITDA for Nava Bharat Energy Limited?

M. N. Rao EBITDA for Nava Bharat Energy for Q4 was close to Rs. 48.84 crore whereas for the year it was Rs. 173.36 crore.

Mohit Kumar With respect to the share application money allotment, is this money put by the Zambian Government or by Nava Bharat Ventures?

M. N. Rao Yes, this is the money put in by ZCCM our 35% investment partner.

Mohit Kumar How much money has been put in the Zambian power plant till YTD FY14?

M. N. Rao Till FY14, Nava Bharat infused around \$176 million and our partner ZCCM has infused around US \$50 million.

Mohit Kumar And has the partner contributed in the share application money?

M. N. Rao

Yes. It is in the form of share capital and share holders' loan

Moderator

As there are no further questions from the participants, I now hand the floor back to Mr. Prasad for closing comments.

G.R.K. Prasad

Thank you very much for your presence on the call. If there are any unanswered questions or clarifications, please come back to us and we will be happy to answer them. Thank you.

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