



Nava Bharat Ventures Limited

Q2 FY2015 Conference Call Transcript

01.30pm IST on Friday, October 31, 2014

Moderator Ladies and gentlemen good day and welcome to the Nava Bharat Ventures Limited Q2 FY15 Earnings conference call. As a reminder all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you, sir.

Siddharth Rangnekar Good afternoon and welcome to the Q2 FY15 Earnings conference call of Nava Bharat Ventures Limited. Today we have with us senior members of the management team including Mr. G.R.K. Prasad – Executive Director; Mr. T. Hari Babu – CFO and Mr. M. N. Rao – VP, Finance. We will commence the call with the views from Mr. Prasad on the operating performance of the Company and updates on the international initiatives undertaken by the group. This will be followed by an interactive Q&A session.

I would like to caution that some of the statements made or discussed on the call today could be forward-looking in nature and the Company and the members of management do not undertake to update them later in the light of changed circumstances. I would now like to invite Mr. Prasad to share his views.

G R K Prasad Thank you Siddharth and a warm welcome to everyone joining us on this call today. I hope you got a chance to go through our results and the press release that followed.

Let me summarize the key highlights of our results:

During the quarter ended September 30, 2014 our total income improved by about 17% to ₹ 289 crore while the profit after tax stood at ₹ 32.3 crore. For the first-half, we reported total revenues of ₹ 595.2 crore up by 19.1% Y-o-Y whereas the profit after tax stood at ₹ 88.6 crore.

The performance was affected during the quarter due to high cost of blended coal for power in Telangana power plants owing to short supply of linkage coal which



prompted us to use imported coal and also use the coal available through e-Auction which pushed the average cost of blend for the power generation.

Secondly, if you recall, the conversion of ferro chrome was stopped owing to mining restrictions on Tata Steel. The company took up merchant production of the ferro chrome which wasn't obviously at same return levels as the conversion, except that it helped the Company recover fixed costs but a resultant reduction in profitability happened during the quarter.

The third reason for the quarter's performance was on account of planned outages in the power plants reducing generations and resultant gains. As far as half-year is concerned, you would have noticed on a year-on-year basis, an increase in financial costs which again was due to the cost of funding for the overseas investments which will take some time to recoup as far as the returns go.

The 150 MW power plant operated under Nava Bharat Energy India Limited however registered satisfactory performance with a total income of ₹ 287 crore for the first-half of this year with about 521 MU of power delivered under merchant sales on an average PLF of 89%. We consider this performance to be quite satisfactory.

The Company expects the performance in the second-half to be driven by power segment with marginally higher volumes envisaged from the new 64 MW unit which is now permitted to sell power through open access after allocating 12% of the delivered power to GRIDCO on a first-right basis. The expectation is that the sale of power from this new plant would happen in the fourth quarter. It could be earlier but I think fourth quarter looks certain.

In the Odisha unit, the Company will now produce Manganese alloys from November and hopes to obtain reasonable value addition for captive power though it may not be equivalent to what would have been the case for conversion of ferro chrome but probably better than what would be the case for merchant production of ferro chrome.

With respect to Zambia, the physical and quantitative progress of the power project has been very significant with about 75% overall progress achieved in terms of engineering, procurement, manufacturing and erection works. We are pretty certain that the power plant will get commissioned in 2015 albeit with the delays from the original envisaged schedule of April 2015, principally driven by the delay in financial closure. The financial closure as a process is delayed because of the multiple lenders in the group and different tranches of finance coming from Africa, China and also driven by the need for proper ring-fencing in a limited recourse project finance structure.

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

Moderator

Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Amit Golchha of Emkay Global. Please go ahead.

- Amit Golchha** My question pertains to the linkage coal. Could you tell us exactly what quantity of linkage coal did you receive versus the linkage which was available and what is your outlook?
- M N Rao** We have used a quantity of 170,000 tonnes of domestic coal during Q2 FY2015. This includes linkage as well as rejects and e-Auction coal which we have purchased. We could get only about 55% of the linkage quantity during the quarter, hence, we had to resort to imported coal usage to the tune of 49,000 tonnes for our 94 MW, Telangana plants.
- Amit Golchha** So how do you see this going forward?
- M N Rao** Going forward also we see the same situation to continue. There may be a slight improvement but the same may not be significant. We may have to resort for using some imported coal for running our Telangana plants.
- Amit Golchha** What is the situation in Zambia in terms of financial closure?
- PJV Sarma** The financial tie-up got completed a couple of months back and now the document negotiation is going on with the Lenders. As we briefed you during the last interaction, now we have more or less firmed up the financing arrangement with a group of DFI lenders led by African Development Bank from Africa and two major banks from China and two European banks based out of Africa. The tie-up is over; approvals have been obtained for almost all of them and now the documentation discussions are going on and we expect it will be a couple of months before we comply with the important conditions required for the financial closure.
- With reference to the physical progress, as explained almost 75% of the project is completed and based on the progress made so far I think towards the end of calendar year 2016, the power plants will be commissioned. Meanwhile, we availed some bridge loans against some of the project finance. Almost close to about \$100 million, so that is the pace of the project.
- We have moved quite a bit in terms of complying with the conditions president, except a few that will also be compliant in the next couple of months. We hope that by the end of this year we will get the financial closure done and we will start drawing the money from January 2015.
- Amit Golchha** If by any chance there is a further delay of two to three months than are we okay to continue the construction of the project?
- PJV Sarma** As I told you, we have availed bridge loan from one of the project finance vendors, i.e. one of the Chinese banks who have given a loan of over \$80 million. So that is not a problem because the lenders know that we are well ahead in terms of project financing and they know that all commitments are there from all the lenders, so they have provided a bridge loan. So that has been availed and that is not holding up any project part. We will increase the bridge loan against the project finance if required
- Moderator** Thank you. We will take the next question from Shirish Rane of IDFC Securities. Please go ahead.

Shirish Rane Can you share the numbers of Nava Bharat Energy, in terms of second quarter sales in units, sales in rupees and PBT?

M. N. Rao For Q2 FY15, the sales was close to ₹ 135 crore and profit after tax is close to ₹ 28 crore.

Shirish Rane And what would be the total million units?

M. N. Rao We have sold 244 million net units.

Shirish Rane During the quarter?

M. N. Rao Yes. During Q2 15.

Shirish Rane For the Odisha plant, have we tied up the remaining 88% which we have to sell in the open market?

M. N. Rao No. Not as yet. We intend to sell this 88% power under short term open access.

Shirish Rane So we expect by December we will be able to tie up and we can start the plant by January?

M. N. Rao Definitely.

Shirish Rane And the 12% will be free power or it will be at the variable cost?

M. N. Rao It is not free power, it will be at the variable cost.

Shirish Rane In Zambia, how has been the coal sales this quarter?

M. N. Rao Coal sales has improved a bit. In Q2 FY15, we sold close to 80,000 tonnes.

Shirish Rane And the realizations?

M. N. Rao Realization was close to \$50 per tonne.

Shirish Rane And do we make money at this realization of \$50 per tonne in terms of PBT or what will be our EBITDA whichever you have?

M. N. Rao We do not make any money, but it is breakeven.

Shirish Rane So breakeven on PBT level or EBITDA level?

M. N. Rao At PBT level.

Shirish Rane In terms of this power plant, have we invested anything more after the last quarter?

M. N. Rao No, after last quarter we have not infused any money or shares. As Mr. Sarma highlighted, we have already raised \$80 million bridge loan from ICBC China against project finance.

Shirish Rane I was asking this from the point of view that you said there was a higher interest cost because of investments overseas?

M. N. Rao Yes, higher interest cost was because we raised a loan from the SBI close to ₹ 31 million which we have infused in the Zambian project. That interest cost is higher during this quarter. It was also there during last quarter, but only for some time. However, for this quarter it is for the full quarter.

Shirish Rane And this would be Libor plus something, right? I mean the interest cost?

M. N. Rao No, we have drawn this loan in Indian Rupees not to have any forex fluctuation to our account.

Shirish Rane But we have invested this in dollar terms in Zambia?

M. N. Rao Yes. We have invested in dollar terms after converting it at the then prevailing rate.

Shirish Rane Will this loan come back to us or is it our investment as equity in to the asset?

M. N. Rao This is towards the equity, it will not come back.

Shirish Rane So we will have to service this debt from our own cash flows?

M. N. Rao You are correct.

Shirish Rane And what is the repayment tenure for this loan?

M. N. Rao Repayment tenure is around 6.5 years.

Shirish Rane But it will be a longer tenure, not like one year or two years kind of a thing?

M. N. Rao Yes. It is a longer tenure of around 6.5 years.

Shirish Rane Recently, the President expired in Zambia, so do we have any sort of political things pending or any approvals pending from Zambian Government which we need in the next two or three months?

M. N. Rao As such nothing is pending.

PJV Sarma As stated, we are almost at the fag-end of the financial closure. There are no major approvals pending from any of the Government agencies except some minor amendments in the agreement otherwise we have got all basic approvals and all project agreements have already been executed whether it is on the PPA or implementation, all agreements have been already signed.

So except some assignments like when the loans are borrowed than some assignment of the project documents have to be done which is more of a formal thing, nothing substantial which has got any commercial significance.

Shirish Rane So effectively any political activity in terms of elections or turmoil which may happen in the next three to six months does not impact us on the project?

PJV Sarma You would have noticed earlier that the Government itself had changed and still we did not have any impact because Zambia is quite a progressive Country and the political transition has been quite smooth right from 1964.

Shirish Rane This quarter we sold about 80,000 tonnes of coal; do we think in the next two quarters this will accelerate to about 100,000 tonnes plus or this is the run rate for this year and probably next year it can go higher?

PJV Sarma The run rate would be slightly better next quarter, but we do not expect much on that. Ultimately next year we are expecting a good amount because a couple of major cement plants are going for expansion so that will help us next quarter but we cannot really say. There will be an improvement in 2015-16.

Shirish Rane But this run rate would be maintained, I mean you can sell 80,000 to 85,000 tonnes?

PJV Sarma Run rate will definitely be maintained. It will only increase from here, will not come down.

Moderator Our next question is from Bharanidhar Vijayakumar of Spark Capital. Please go ahead.

Bharanidhar V Could you give me the split of the investments in to Zambia so far between Nava Bharat, the Zambian Government and the debt component?

PJV Sarma As mentioned, the total amount of equity that is required to be brought in is \$240 million between us and the Zambian partners. So, close to \$160 million is from us and around \$80 million from the Zambian partner. I think except \$1-2 million, all the money has been brought in. ZCCM has brought in their contribution and we have also brought in our contribution. It may be a couple of million dollars here and there but otherwise broadly almost 100% contribution has already come.

Bharanidhar V And how much debt has been brought in?

PJV Sarma There was a loan from Standard Chartered Bank of \$35 million that we have taken and also borrowed about \$80 million of bridge loan from ICBC Bank from China. These are the two bridge loans we have taken.

Bharanidhar V Okay. Could you give us the numbers for the AP plants and the Odisha plants?

M N Rao Yes, our 94 MW Telangana plants worked at 91% PLF, whereas the 20 MW worked at 78%. Odisha 94 MW plants worked at 16% only and this was a major drag on our average PLF worked because only 30 MW plant was operated for 50% capacity for the manufacturing of ferro chrome. So average PLF has worked out to 59% whereas our 150 MW plant, Nava Bharat Energy worked at a PLF of 82% during the quarter.

Bharanidhar V Sorry, I missed the PLF figure at Odisha. So the 94 MW operated at 16%, is it?

M N Rao Yes, only out of 30 MW plant the power required for ferro chrome production was used as there was no price for the merchant power sales.

Bharanidhar V And I also missed the coal procurement number. You said 170,000 MT of total coal for the quarter?

M N Rao Yes, 170,000 tonnes of domestic coal was used for our 94 MW plants in Telangana which includes linkage coal, e-Auction and some parts of rejects. Rest was the imported coal to the tune of 49,000 tonnes.

Bharanidhar V So the total is 170,000 tonnes plus 49,000 tonnes?

M N Rao Yes, so that is close to 220,000 tonnes for 94 MW plants at Telangana.

Bharanidhar V What would be the average landed cost for your imported and domestic coal?

M N Rao The average landed cost for imported and domestic coal put together was about ₹ 2,800 per tonne.

Moderator Thank you. As there are no further questions from the participants I now hand the floor back to the management for closing comments.

Management I thank all the investors for joining us on the conference call today and if you have any further clarifications you please drop us an e-mail and we will be glad to answer. Thank you.

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