



Nava Bharat Ventures Limited

Q3 FY2015 Conference Call Transcript

February 10, 2015 at 03.00pm IST

Moderator Ladies and gentlemen good day and welcome to the Nava Bharat Ventures Q3 FY15 Results Conference Call. As a reminder all participant 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 this conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Siddharth Rangnekar from CDR India.

Siddharth Rangnekar Good afternoon and welcome to the Q3 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, Mr. P.J.V. Sarma – Director and Mr. M.N. Rao – VP Finance.

We will begin the call with comments from Mr. Prasad. 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 the management do not undertake to update them in light of changed circumstances later.

I would like to call upon Mr. Prasad to share his thoughts with you.

G.R.K. Prasad Thank you Siddharth and a warm welcome to everyone joining us on the call today. Let me summarize the key highlights of our results:

In 9M FY15 our total income showed 11% increase at ₹ 8,732 Mn with corresponding PAT of ₹ 1,181 Mn. The Q3 total income stood at ₹ 2,780 Mn whereas the PAT was at ₹ 295 Mn.

During the nine month period ending December 31, 2014, there has been a spurt in production volume of Silico Manganese duly supplemented by production in Odisha unit as well. Following the import of huge quantities of steel products from China and reflecting the downward trend in steel markets worldwide, domestic



steel prices and dependent Ferro Alloy prices fell steeply towards the end of the quarter. As the market for Silico Manganese in both domestic and international markets corrected, the Company made necessary valuation changes for closing inventory, impacting the profits.

While the power plants in Telangana and Andhara Pradesh continued to thrive on higher merchant realizations with stable input costs, the Odisha power operations were impacted by relatively lower merchant realizations and lower volumes necessitated to maintain captive power status.

The new 60 MW unit awaits stabilization study by Gridco and increase in merchant realizations for indulging in merchant power trade open access though approvals of the Ministry of Environment, Government of India and PPA with Gridco are in place. The consequential under recovery of the fixed costs impacted the power division performance in Odisha.

Moving away from the results, I am glad to report that; the operations of Nava Bharat Energy, operating the 150 MW unit in Telangana have been distinctly profitable with the nine month performance yielding income of ₹ 4,315 Mn and Profit after tax of ₹ 790 Mn.

Maamba Collieries Limited, the Zambian Coal & Power subsidiary company, recently concluded a major part of the financing documentation for US\$ 590 Mn including that facilities against Export Credit Agency (ECA) Insurance cover from Sinasure, China for a combined facility aggregating to US\$ 365 Mn while the balance of US\$ 225 Mn is being sourced from Development Financial Institutions and commercial banks against PRI cover. The ECA insurance cover from Sinasure is first of its kind, issued for a private project in Africa. The Zambian company targets full Financial Closure before the end of March 2015 to avail debt disbursement thereafter.

The Zambian Power Project attained an overall progress of about 80% having been funded by equity funds from sponsors, bridge loans from banks and credits extended by the suppliers. The Company successfully conducted the hydro test for the Steam Generator of the first unit of 150 MW in January 2015. It is a major milestone achieved for this project. The Zambian Company targets the commercial operations from both units of the 300 MW power plant from March 2016 in a staggered form starting Q3 FY16. The sale of high grade coal, currently at an annual run rate of about 350,000 tonnes, is expected to improve on the back of new demand from local industry in Zambia.

We have made further progress in the Laos Hydel Power project wherein our step down subsidiary has initiated selection of EPC contractor for the 150 MW Hydel power project, long term financing plan and the power offtake arrangement with local utility. The Tanzania project awaits allocation of initial land by the Government.

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

Moderator Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on your Touchtone telephone.

The first question is from the line of Shirish Rane from IDFC Securities. Please go ahead.

Shirish Rane You said that there has been an inventory revaluation on the Silico Manganese inventory because of the sharp fall in prices. So have you passed that through the P&L account?

G.R.K. Prasad Yes, as of 31st December 2014.

Shirish Rane So what will be the quantum?

G.R.K. Prasad The inventory is about 5,000 tonnes and the revaluation amount is close to ₹ 6 crore.

Shirish Rane So it will be reflected as a change in stock in the raw materials or you have done an extraordinary provision in the other expenses?

G.R.K. Prasad No, this is valuation change in stock.

Shirish Rane Secondly, I wanted to understand that this Odisha unit you said was ready to operate, so is it only waiting for merchant rates to improve or is there anything pending still?

G.R.K. Prasad There is a small grid stabilization study which GRIDCO has been undertaking but that is also completed and we are now ready to pump in as and when rates improve. Currently the rates in Odisha are hovering around ₹ 3 or less than ₹ 3. But this unit is required to use domestic coal without any linkage so that will be a mix of local coal through e-auction and other coals. That way, cost wise it is slightly higher than the current rate supports.

Shirish Rane So if the market rate moves to let us say ₹ 3.25 to ₹ 3.50 levels in the summer months than we can operate the plant?

G.R.K. Prasad Yes, ₹ 3.50 I think is our thrust.

Shirish Rane So you are monitoring ₹ 3.50 if it goes above that then you will start supply?

G.R.K. Prasad Yes, I mean we can start supplying provided there is a fixed cost recovery to start with.

Shirish Rane And we do not need to supply anything from that to the Odisha Government?

G.R.K. Prasad No, we are required to, as detailed earlier, the PPA postulates 12% of the generated power. The delivered power being offered to the Gridco on a first right basis.

Shirish Rane So they may decide to choose to take it or they may not take it?

G.R.K. Prasad Yes, but that is at the variable cost as determined by the OERC.

Shirish Rane And what is the status on the conversion arrangement for Ferro Chrome? I mean the mine is shut in Tata's case even today, so there is no clarity on when will it start again.

G.R.K. Prasad No, they started but they are probably assessing the possibility because the mining control order is going through some legal process. Once that is done probably we might resume conversion or at least look at an alternative in that unit.

Shirish Rane So how much time would it take to get some clarity on this, I mean is it possible to get some clarity on this by this quarter end?

G.R.K. Prasad It is difficult to say. Basically we were hoping that some clarity should have been emerged by now but things are moving slow. So we have to continue producing on our own account either Silico Manganese or Ferro Chrome. So currently we are doing Silico Manganese but the Silico Manganese prices being what they, we are also looking at reversing back to Ferro Chrome shortly at least part of the production.

Shirish Rane And in the international projects mainly the Zambian power project, you were saying that we have completed the Chinese part of the funding and we are awaiting the closure of the DFIs and the commercial banks. Is that understanding right?

G.R.K. Prasad Yes, most of the points, but the documentation whatever we did talk about, both the ECA funding which is emanating from China's insurance cover as well as the development financial institutions cover with certain CPs attached to it which is where pertaining to the DFI portion. So we expect that to be resolved in the next one-and-a-half months and also simultaneously comply with the commercial conditions precedent to start availing debt disbursement from April onwards. However, the documentation whatever we did is for the entire financing because CP is for the DFI portion.

Shirish Rane So the documentation is through but the CP requires you to meet the DFI closure and once that is done then you can drawdown the loans. That is the summary of the issue?

G.R.K. Prasad Yes.

Shirish Rane And by when will the first unit get sort of test run or commercialized, is it September, October or December of 2016?

G.R.K. Prasad Yes, we are targeting this in the quarter October to December. It has gone through as indicated the hydro test run very smoothly and now we have to go through the combined erection part of it which is currently going on. So October to December quarter is more or less achievable.

Shirish Rane And the last thing was on the coal sales, what would have been the coal sales in Zambia during the quarter and approximate realization for the same?

G.R.K. Prasad It is roughly about 25,000 tonnes a month. So, for nine-months ended December 31, 2014, the total sale was close to 226,000 tonnes.

Shirish Rane And realization would be how much?

G.R.K. Prasad Realization is about \$53 per ton and that is one point you must remember, unlike the old scenario the coal prices here are not impacted.

Shirish Rane That is exactly what I wanted to ask, that is it impacted?

G.R.K. Prasad The blessing in disguise is that Zambia is land locked and the usage of coal is within the region so whatever volatility that has been seen in the international coal prices has not impacted the Zambian coal prices.

Shirish Rane So at this realization, are we breakeven on our actual costs or we are still losing money on a month?

G.R.K. Prasad We are currently doing a smaller volume of sales. At this point of time we are cash breakeven. So we expect the commercial profit probably in the next quarter or two when the ramp up of the sales will happen which is expected any time now.

Moderator Thank you. The next question is from the line of Bharanidhar Vijayakumar from Spark Capital. Please go ahead.

B. Vijayakumar What is the trend of the merchant rates and we do have contracts till May 2015 for our merchant capacity, so how do you see the rates for the ensuing year?

G.R.K. Prasad We are attaining closure on the contract for the next year so probably we would come back with details in the next call. But that period also is up to May 2016. We expect the price to be at least equal if not higher than whatever has been struck earlier.

B. Vijayakumar So what has been the average merchant realization for the nine months period or for the last quarter?

M.N. Rao For the nine-month period, the average realization is around ₹ 5.00 per unit and for Q3, it was at ₹ 5.10 per unit.

B. Vijayakumar And this rate also applies for the 150 MW subsidiary, right?

M.N. Rao For 150 MW subsidiary also more or less the same rate.

B. Vijayakumar And on the coal fuel front for the 150 MW, what is the current mix of coal being used and average landed cost there?

M.N. Rao Current mix of coal for 150 MW is 40% domestic coal and 60% imported coal.

B. Vijayakumar And are you seeing any benefit in terms of higher margins due to the fall in the imported coal price recently?

M.N. Rao Current quarter onwards there was a fall in the imported coal prices. We have already stocked the coal required and hence the fall in international coal prices will have some positive impact from now on.

B. Vijayakumar And a few years back, we were having the plan to run this plant using washery rejects. So how is the scenario looking there, is it possible at all in the future we could use washery rejects or we continue to have this kind of a mix?

M.N. Rao For 150 MW plant?

B. Vijayakumar Yes.

M.N. Rao We can use any coal in 150 MW. As of now we are using e-auction coal with mix of imported coal. If rejects are available, then we can even use rejects. Mostly we may maintain the same blend of 40:60 domestic-foreign for the coal going forward also.

B. Vijayakumar And what is the coal availability scenario for the new 64 MW at Odisha?

G.R.K. Prasad For the new 64 MW plant, we have an ideal source of e-auction there; that is available in plenty but we can also use washery rejects.

B. Vijayakumar And the washery rejects will be coming from Mahanadi coal fields?

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

B. Vijayakumar And you have mentioned that your breakeven cost would be around ₹ 3.5 per unit, right?

G.R.K. Prasad Yes. That is the full breakeven cost.

B. Vijayakumar And coming to the Maamba site, we had certain issues on the PPA tariff being in the US Dollars, so that has been resolved?

G.R.K. Prasad Yes, it was resolved quite some time ago. Now this whole revenue stream is denominated in US Dollars as well as of course liabilities are there, so we have loans in US Dollars. So on exchange side the only exposure that the company carries is on interest rates, not on the exchange.

Moderator Thank you. The next question is from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia With regards to Zambia, you mentioned that currently it is operating at 350,000 tonnes and it will ramp up due to increase in local demand. So if you can share how fast this can ramp up to rated capacity? And secondly, with the current realization of \$53 per ton, we are breaking even, so once it ramps up if you can share what is the cost reduction you see that can happen?

G.R.K. Prasad Well, it is not like a capacity that we are talking about, we are talking about what is the Zambian market size which is actually increasing with the addition of new users in the industries like cement and other industries. We are probably targeting one of the large cement units being setup there and getting commissioned shortly. That will actually improve the offtake of coal which is currently standing at about 27,000 tons to 30,000 tons and then to about 45,000 tons. That is the plan that would materialize probably in the next quarter or so. And as far as the cost is concerned, with the current average cost of \$53 per ton and with the current volumes, the

company is cash breakeven and we expect that it would actually improve further with commercial breakeven as the volumes of sale improve with the sale price remaining more or less at same.

- Sumangal Nevatia** Do we plan to bid for any coal blocks in the upcoming coal block auctions?
- G.R.K. Prasad** We have been evaluating but we have not really focused on any single block at this point of time.
- Moderator** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar** How much is the final capital cost for the power plant and mines put together and how much have we infused as we speak?
- G.R.K. Prasad** You are talking about Zambia?
- Mohit Kumar** Yes Zambia.
- G.R.K. Prasad** Well, the current cost which is presently appraised and closed is about US\$ 843 Mn, of which the coal mine cost is about US\$ 104 Mn and the balance is towards the power project. So currently as the instance of cost goes, it is about US\$ 400 Mn but that is also a mix of the equity funds from the sponsors, bridge loans from banks and credit extended by the suppliers.
- Mohit Kumar** Can you give us the breakup, between the equity infused and the debt taken?
- G.R.K. Prasad** Well, the equity funded is about US\$ 270 Mn. Then bridge loans are about US\$ 80 Mn and balance is suppliers' credit.
- Mohit Kumar** So has the Zambian Government brought in its share of equity?
- G.R.K. Prasad** Fully.
- Mohit Kumar** And my second question pertains to the 114 MW operation in Andhra Pradesh, how much of the coal has been realized from SECL for our operation? Can you give us a percentage term, and whether we are seeing any shortage of linkage coal?
- G.R.K. Prasad** Actually the linkage coal is pretty smooth at this point of time. We have actually been seeing full linkage from the Singareni coalfields and our linkage stands at 100 MW out of 114 MW and the entire linkage offtakes are being met by SECL.
- Mohit Kumar** So you are getting 100% of the linkage coal?
- G.R.K. Prasad** Yes, we would supplement it with some bit of imported coal because of the operational requirements but otherwise for the linkage quantities, there has been no short supply. Earlier it used to be but now it has been streamlined.
- Mohit Kumar** Coming back to Maamba, has our PPA been approved by the Zambian regulator and does the capital cost need the approval of Zambian regulator?

- G.R.K. Prasad** Yes, it requires approval and it was done actually. The PPA was signed after the local regulator approved the tariff.
- Mohit Kumar** Okay. So has the tariff been approved or the capital cost has been approved?
- G.R.K. Prasad** Actually the tariff has been approved with minor escalable factors and based on US Dollars, the tariff is on take or pay basis. So we have spot the tariff, one is capacity tariff and the other is energy charge. That constitutes the generation tariff and besides this we also have a transition tariff for delivery up to the actual international point.
- Mohit Kumar** So are you building a part of transmission link to the delivery point?
- G.R.K. Prasad** Yes. That is right.
- Moderator** Thank you. Ladies and gentlemen, that was the question. I now hand the conference over to the management for their closing comments.
- G.R.K. Prasad** Thank you very much. We are happy that participants have raised important questions. If any questions are unanswered, please feel free to come back to us. Thank you very much.

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