

NAVA BHARAT

## Nava Bharat Ventures Limited

### Q1 FY16 Earnings Conference Call Transcript 12.00 noon IST on Tuesday, August 11, 2015

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**Moderator**

Good Day Ladies and gentlemen, welcome to the Nava Bharat Ventures Limited's Q1 FY16 Earnings 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 the conference call please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

**Siddharth Rangnekar**

Thank you. Good afternoon and a warm welcome to the Q1 FY16 Conference Call of Nava Bharat Ventures Limited. We will be discussing the first quarter's performance today. Joining us from the management are 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 start off with some opening perspectives from Mr. Prasad and this will be followed by an interactive Q&A session.

As always, I would like to caution that some of the statements made or discussed 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.

I would now like to invite Mr. Prasad to share his views with you.

**G.R.K. Prasad**

Thank you Siddharth. Thank you for joining us on today's con-call.

At the outset, I would like to dwell on the significant milestone of financial closure achieved by Maamba Collieries Limited, our Zambian subsidiary in pursue of its integrated coal and 300 MW power project estimated to cost about US\$ 840 million, including sponsors equity and commitment aside from long-term debt from a wide spectrum of lenders.

For Nava Bharat Ventures, this assumes significance for:

- It will be the first green field project of this size to have been set up by an Indian corporate group in sub-Saharan region
- The project secured Export Credit Agency Insurance from Sinasure China, a first of its kind to a private project in Africa



- The project establishes the footprint of Nava Bharat Ventures Group in Africa duly validated by large international lenders comprising Development Financial Institutions and Commercial Banks from Africa and China

Coming to the operations, in standalone terms during Q1 FY16, the total income stood at ₹2,005 million whereas profit after tax was at ₹130 million. Our profit during the quarter was severely impacted due to commodity prices as well as adverse sector especially in ferro alloys and sugar. However, the consolidated numbers are significantly better; the consolidated operations were driven by the 150 MW unit of Nava Bharat Energy India Limited, while the overseas operations were near breakeven with the Zambian subsidiary's improved performance. Coal mining operations of the Zambian subsidiary turned cash positive in Q1; we expect it to improve further with higher sales volume in the coming months.

For Q1 FY16, our consolidated total income stood at ₹3,720 million and consolidated profit after tax stood at ₹410 million. The domestic power business was benefitted by healthy merchant sales from our Telangana operations. During the quarter, we witnessed favorable coal pricing that helped keep cost in check. The Odisha works, however, continued to suffer for want of viable valuation opportunities by way of merchant sale of coal. The PLF of 150 MW plant operated by our subsidiary Nava Bharat Energy stood at 86% and yielded 250 million units of power for merchant sales. The unit derived significant cost advantage by sourcing coal indigenously.

The sugar business reported a performance mirroring the weak trend in the sector. Millers across board have not been able to absorb higher cane cost; the Company has been able to sustain operations by mitigating the situation through sale of by-products and sale of co-generated power.

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

**Moderator**

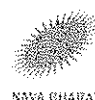
Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of S Raju from Laburnum Capital. Please go ahead.

**S Raju**

We have two questions, first of all when we look at the 114 MW Andhra Pradesh ferro alloy plant and the 94 MW Odisha ferro alloy plant, obviously the economics that these generate will go in-line to an extent with the ferro alloy cycle. Now given whatever uncertainty there was in steel and given the question marks raised around linkages, would it not be better to simply give up the ferro alloy related linkages we have for these plants and to simply apply for regular linkages and run these pure power plants rather than doing part ferro alloy and then selling 50% as merchant power.

**G.R.K. Prasad**

Well, as you probably are aware the coal linkages are governed by certain regulations, principle being the captive usage for which these particular power plants are designed. So the coal linkage essentially emanates for captive usage and that is how we secured linkages for 100 MW out of 114 MW in Telangana and 90 MW in Odisha. So as far as Odisha is concerned, we are required to show that captive consumption norms have been met in the sense that 51% of the power that is generated during an annual year is consumed captively, whereas of course we have slight freedom in Telangana operation, that's how you would see that the Company exercises flexibility in terms of production in Telangana whereas in



Odisha we have a requirement of meeting the captive consumption norms to sustain the coal linkage. Essentially coal linkage forms the fulcrum because that's where the cost advantage comes in.

- S Raju** Obviously this made sense in a world where ferro alloys was a good business and merchant power rates were high. As all the large power plants that have so far been stranded, gets commissioned and as the north-south grid linkage happens and if the steel cycle continues to play out in this direction, would it be possible for us to give up these linkages and then just re-apply for linkages of similar quality coal simply to sell either on PPA or to one of the State Governments or is that not feasible, do we have to keep doing this ferro alloy / power combo?
- G.R.K. Prasad** Well, getting linkages is not feasible, because of the regulations that have been put in place; getting linkages on a standalone basis is not possible.
- S Raju** Why is that, isn't the government saying that anyone can bid and get a linkage?
- G.R.K. Prasad** Well, they have certain rules and regulations, principle being the size of the plants and the long-term PPAs being in place, those two need to be there.
- S Raju** And you are saying even if we could meet the long-term PPA criteria and we would be too small for size?
- G.R.K. Prasad** Yes.
- S Raju** The only option if we wanted to give up ferroalloys would be to run these on e-auction basis?
- G.R.K. Prasad** Yes, that would be like putting units to a lot of volatility
- Moderator** Thank you. Our next question is from the line of Ravinder Vashist from IDFC Mutual Fund. Please go ahead.
- Ravinder Vashist** I just wanted to get a perspective on what is your future outlook for the Company considering that ferro alloy business is not really going anywhere, sugar cycle also being in a downturn and also merchant power scenario is looking bleak considering that the chances of integration of southern grid is now a real possibility and that should happen in some time. So what is the outlook for the Company going forward?
- G.R.K. Prasad** I think we need to address that in respect of each division. In respect of ferro alloys, our current vulnerability stands in Odisha where ferro chrome operations are taking place on our own basis by sourcing material from OMC and buying reductant and producing ferro chrome and sell. Well, one of the steps that the Company is pursuing is to obtain or resume the conversion with Tata Steel, That process is in advanced stage of discussion and probably we should be completing in next few days. Once resumption of conversion takes place, what would happen is we probably would bring some kind of stability to the chrome operations in Odisha where both the furnaces could be run at their full capacity and whatever power that is used for that conversion will fetch a valuation which is significantly higher than current market price as evidenced by IEX prices across the country. So that is one thing.



The AP operations of course remain a little more flexible, so we can always switch between production of ferro alloys and sale of power, so that flexibility continues to remain. In terms of power, of course our concern remains with the new 64 MW unit in Odisha which is ready for all practical purposes and is only waiting for some kind of stability in merchant power prices. We may have to look at the plan B which is getting into a strategic investor relationship for making that unit as one of a group captive unit, probably that is one plan which we will be pursuing in parallel to whatever we are doing.

So I think in terms of business outlook, I would expect these steps will unfold soon with conversion happening first and then other steps that we are undertaking yielding some desired results. One, of course there is one industry which is sugar on which we do not seem to have any control, seems like the entire Country is facing that kind of issue, so one of the steps that we could probably look at is to increase value addition through by-products than concentrating on sugar. So we are looking at a couple of opportunities. Of course it is too early to really talk about it but I think that probably could bring about some kind of semblance of normalcy there which otherwise is really facing a problem in terms of mismatch between cane price and the sugar price currently prevailing.

**Ravinder Vashist**

Just to understand on the various steps that you have mentioned, so far as the discussions with Tata Steel, what stage are we on and by when do you think there would be some sort of clarity on the operations getting resumed for Tata Steel?

**G.R.K. Prasad**

We have been waiting for Tata Steel to get the statutory go ahead which has happened very recently, they have secured the permissions to operate the mine on a merchant basis which enables them to resume conversion. So of course it is available for a limited period up to 2020, so Tata Steel is also very keen to resume conversion operation early. So it is kind of mutual and before we get into a formal run of the scheme, we have to settle the norms for conversion, period etc. So those are currently under discussion, I cannot reveal a timeline or anything like that, fair enough to say that it is in advanced stage.

**Ravinder Vashist**

And as far as Odisha is concerned, we have been hoping that merchant power rates will stabilize but that has not really happened for quite some time. So what are the options in terms of plan B that you talked about, so what stage are we on, is it an advanced stage or it is just like a thought that is getting built upon at this juncture?

**G.R.K. Prasad**

Well, that is a process which we started quite some time ago, so we have sent out some kind of feelers that we would be interested to get into some arrangements like that. And of course, given the current stage of uncertainties in respect of mining and all, all these things took a back seat. Now that there is some clarity in terms of mining operations at least for next few years and some of them are for captive purposes, it is still longer so we hope to get those people back on to the table again.

**Ravinder Vashist**

Could you throw some light on what is happening vis-à-vis the ED cases that are there with the associate firms not really with the listed Company but what is the status there?

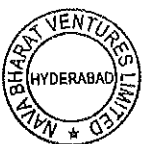
**G.R.K. Prasad**

As reported, presently the attachment got confirmed and what currently is happening is that the parties have approached the Appellate Tribunal against both confirmation as well as subsequent steps that they intend to take while the main



case is still to be heard. So Appellate Tribunal gave an interim stay so the matter stands there, we expect that matter to drag on for some time.

- Ravinder Vashist** In terms of merchant power sales visibility, till what time do we have a PPA now?
- G.R.K. Prasad** Well, merchant power in Telangana and AP, AP is a small unit of 20 MW, but in Telangana both the 114 MW as well as the 150 MW have current arrangements which would sustain till May 2016. Our understanding is, they want to have at least for another year if not two, of similar arrangement like that.
- Moderator** Our next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar** Sir have you drawn the money under this long-term financial arrangement?
- G.R.K. Prasad** Yes, we did. That is the principal event that has taken place, we drew \$370 million from the institutions as first utilization.
- Mohit Kumar** Of course you mentioned that this power plant will start commercial operation in H1 CY16, so do you mean the Unit-I and Unit-II both will come by June 2016 or is it... can you share some detail or how?
- G.R.K. Prasad** As per the schedule both units would come on stream by that time.
- Mohit Kumar** By June 2016?
- G.R.K. Prasad** Yes, actually June-July but I think we probably are expecting the contract to deliver them by June, that's how it is.
- Mohit Kumar** And is it possible to share some details on PPA for the power plant in the sense how the PPA structure, is it cost basis then what is the ROE and what kind of incentives we can earn on this power plant?
- G.R.K. Prasad** This is a two part tariff PPA on take or pay basis for a term of 20 years from the date of the COD, so we have capacity charge and energy charge denominated in USD cents and we have certain escalation factors in terms of capacity and energy too but they are more limited to variable factors like wages and those kind of stuff, which are nominal escalations. Other than that the tariff is driven by cost plus and an agreed return on equity and is approved by the Energy Regulatory Board of Zambia and this return translates to roughly about 20%.
- Mohit Kumar** So what is an equity base, is it for combined entity, for power plant plus coal mines or is it different for power plant and the mines - whatever equity we have put in the mines will have return depending on the how the coal prices behave?
- G.R.K. Prasad** Well, it is an integrated power project with coal mine attached and the return that we are talking about is on an integrated basis. So in fact if you look at only power, the return would be substantially higher than that.
- Mohit Kumar** So how much equity we have infused till date and are we likely to infuse any further equity?



**G.R.K. Prasad** No, the total equity commitment, base equity commitment for project is about \$248 million which has been injected in full by both the sponsors which are our subsidiary from Singapore, Nava Bharat Singapore - holding 65% and the Zambian investment arm called ZCCM Investment Holdings. Both together put in the base equity and we do not expect to put any more equity on the project.

**Mohit Kumar** One clarity, is this capacity charge dependent on the final capital cost approval by the Zambian regulatory board?

**G.R.K. Prasad** No, it is not because the capacity charge is determined taking into account the total cost after the contracts are awarded and all, so it is more fixed term and fixed price contracts. So there is no change in capacity charge.

**Mohit Kumar** Sir is it possible to share the revenue EBITDA and PAT number for Nava Bharat Energy and Zambian operations for the quarter?

**G.R.K. Prasad** For the quarter it is relatable to only coal mining operations so it is like about 40,000 tons kind of a sale, I mean on an average it is around 30,000 tons during the first quarter sale of coal and the operations were cash positive in the sense that after meeting all cost and all, the coal mine turned profit of \$120,000.

**Mohit Kumar** Sir what is the revenue, EBITDA and PAT for Nava Bharat Energy?

**M.N. Rao** Mohit, Nava Bharat Energy for this Q1 EBITDA was ₹46 crore and the PAT is around ₹29 crore.

**Mohit Kumar** Sir given that we have booked losses in ferroalloys in the last couple of quarters, how do you see the ferroalloy business for the next couple of quarters and how do we see it moving forward?

**G.R.K. Prasad** Well, not to give any forward-looking statements but I think Q2 will remain subdued because the current talks on conversion can only materialize from Q3 onwards, but Q3 and Q4 we are definitely looking at better times.

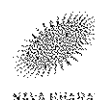
**Moderator** Our next question is from the line of Amit Golchha from Emkay Global. Please go ahead.

**Amit Golchha** This is Amit here. Sir first question is on the ferroalloy business, essentially last quarter you had mentioned that about ₹13 crore was the EBIT loss and that was essentially the fixed cost also of the plants so why has the loss this time higher than even that fixed cost?

**G.R.K. Prasad** Well, loss in last quarter was more coming from Odisha being the fixed cost in the sense what we have lost. This time around our problem emanated from manganese alloys which suffered a precipitous fall in prices by almost 12% during the quarter. That is where the loss is more pronounced.

**Amit Golchha** Sir if we were to put a number on the fixed cost of AP and Odisha both the plants fixed cost, how much it will be per quarter? I mean we want to basically have a sense on much could be maximum loss which can come from ferroalloys in a worst case scenario, so essentially what is the total fixed cost which can come in a quarterly number?

**G.R.K. Prasad** Well, it is roughly about ₹20 crore.



**Amit Golchha** So essentially this quarter's loss is the fixed cost of both the plants put together, is that correct?

**G.R.K. Prasad** Yes.

**Amit Golchha** So essentially today what we are selling is that almost the cost of production excluding these variables...

**G.R.K. Prasad** Yes, we have to keep contribution but that contribution is just about small.

**Amit Golchha** And secondly sir, at the end of FY15 the debt was roughly ₹1800 crore, post this Zambia financial closure whatever we would be raising to complete the plant where do you see this peak debt post this Zambia commissioning?

**G.R.K. Prasad** I think Amit you have to understand the Zambian debt does not have recourse to the parent.

**Amit Golchha** Yes, that is correct sir, just wanted to understand the balance sheet debt on Zambia.

**G.R.K. Prasad** You are talking about consolidated?

**Amit Golchha** Yes, so today we have taken bridge loan to fund the operations whatever construction in Zambia, so you would be repaying that out of whatever debt you will be taking from the financial closure part of it.

**G.R.K. Prasad** Let's look at it this way, the debt that is planned for the Zambian subsidiary is about \$590 million max, of which I think 10% will remain to be drawn post the COD or around the COD time. So my guess is about \$500 million debt will be there as of FY16.

**Amit Golchha** And of this essentially 65% is our share and 35% is the Zambian Government's share?

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

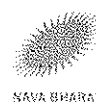
**Amit Golchha** And so basically if we calculate this way sir, \$840 million total CAPEX, 30% of that is equity and you had mentioned 20% is the ROE, roughly cost plus ROE which you have agreed in the PPA, so essentially you will be earning on 30% of \$840 million and 20% ROE?

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

**Amit Golchha** And next question is on the coal mix in different plants and what is the current cost post the correction in the prices or whatever indigenous sources you have replaced in Nava Bharat Energy -as you mentioned? What is the current fuel cost if you can give that, maybe AP and Odisha and 150 megawatt?

**G.R.K. Prasad** I will ask Rao to answer.

**M.N.Rao** Yes Amit, as per this Nava Bharat Energy is concerned we are using predominantly domestic coal, we are using 81% of domestic coal and only a bit of 19% imported coal we are on.



**Amit Golchha** And this 81% is coming from e-auction mainly?

**M.N.Rao** Yes, 81% mainly is coming from e-auction.

**Amit Golchha** And what is the cost per unit here sir overall?

**M.N.Rao** Cost per unit is working out to something around ₹3/-.

**Amit Golchha** And for the balance Telangana plants?

**M.N.Rao** For the Telangana plants we are mainly on domestic coal only, we are not using any imported coal, this is through whatever linkages and e-auction we are 100% on indigenous domestic coal only.

**Amit Golchha** So there also the cost is around similar level or is it lower because you have some linkages as well there?

**M.N.Rao** I will get back on this cost detail separately Amit.

**Amit Golchha** And sir in case of Odisha I think predominantly you would be using linkage?

**M.N.Rao** Yes, only linkage.

**Amit Golchha** And sir next question is on this group captive thing in Odisha which you spoke about, would you need some approvals before you go in for this or today you have the approval to... even if you let's say tomorrow you need this power in your own ferrochrome business, you can use this?

**G.R.K. Prasad** Well, I think as far as captive usage of the power is concerned two units are to be created. I do not think we require any more approvals.

**Amit Golchha** Correct, at least for your requirement. So if you go for group captive thing?

**G.R.K. Prasad** Yes, if you go for group collective project then what happens is in an SPV that is going to be formed, whoever is intending to consume will hold shares. So under the provisions of the Act they become owners of the unit, collective owners. Of course as a process it will have to go through some kind of a court order or something like that but I think that is the way it should be.

**Amit Golchha** And sir do we have any plans to sign long-term PPAs beyond whatever the visibility which is there today let's say till May '16?

**G.R.K. Prasad** We have made that kind of an offer to both Telangana grid as well AP grid, but there is no dispensation under which that such a PPA can be entered into now.

**Amit Golchha** Because sometime back there were some bids but I think they were largely based on linkage.

**G.R.K. Prasad** Yes, they are based on linkage coal, yes.

**Amit Golchha** So you could have bid 114 megawatt I guess?

**G.R.K. Prasad** With 114 megawatt the problem, is that the quantum of power was not sufficient.





**Amit Golchha** So was there minimum capacity?

**G.R.K. Prasad** There was a minimum certain megawatt capacity which had to be sold from one unit.

**Amit Golchha** So then in that case in a normal PPA tender we might never be able to sign a long-term PPA, is that correct?

**G.R.K. Prasad** But Nava Bharat Energy India can probably, under subsidiary we can do that.

**AmitAmit Golchha** Nava Bharat Energy you can do that?

**G.R.K. Prasad** Yes.

**Amit Golchha** But that only if there is imported coal?

**G.R.K. Prasad** Even this also, for example if they reduce the minimum quantum to 50 megawatt we can get in 114 without any problem.

**Amit Golchha** Right. And in case of 150 megawatt would it qualify under imported coal or would it qualify under linkage coal or whatever, domestic coal?

**G.R.K. Prasad** It is neither, actually the coal usage is flexible, actually the plant is designed to use a variety of coals including imported and local coals.

**Amit Golchha** So you can bid in both?

**G.R.K. Prasad** Yes, we can.

**Amit Golchha** Okay. So we heard sometime back that there is some possibility of imported coal bids also coming, so you are hearing something on that?

**G.R.K. Prasad** Yes, and same follow CERC pricing changes, for periods of 36 months or so. So they wanted to do that, so we have made that offer under that context also.

**Amit Golchha** Alright sir. Last question is on the overall operations, you explained business by business what is the visibility and outlook, now since we have more visibility on Zambia and this quarter's performance if we look at, apart from ferroalloys I think more or less broadly the operations are going to remain similar for about one year's time from now, ferroalloys you could have some contract with Tata Steel which can give you some additional income. So is it fair to say that today we are at a run rate at something like ₹60 crore to ₹70 crore loss in ferroalloys and about ₹100 crore of profit, I am talking about in terms of current quarter run rate annualized, so essentially ₹100 crore of profit in Nava Bharat Energy and about ₹20 crore of loss in Sugar and ₹120 crore of profit in the balance power plants. So is that a correct understanding?

**G.R.K. Prasad** Yes, if you extrapolate that is how it looks here.

**Moderator** Thank you. Our next question is from the line of Mitthal Upadhyay from Securities Investment Management. Please go ahead.



**Mitthal Upadhyay** Sir three questions, one was, what is the consolidated debt which we have and what part of it is with the Zambian company, end of Q1 or end of FY15?

**Management** What is your next question?

**Mitthal Upadhyay** Second question is, since we have the financial closure with the Zambian company so what was the extent of loans and advances that we had extended to them? So how much of that advances will be recovered from that company with the financial closure being done?

**G.R.K. Prasad** We extended about \$40 million, that \$40 million is over and above the basic commitment, that \$40 million we should get in the next four months, back.

**Mitthal Upadhyay** And sir on the first question, the debt and the Zambian company?

**M.N. Rao** Consolidated debt of the Indian company is something around ₹410 crore with Nava Bharat Singapore having a debt of something around ₹420 crore. Zambia we have not yet drawn as on 30th June, so excepting \$80 million what we have some ICBC bridge loan -whatever we have drawn for the Zambian subsidiaries during the month of July.

**Moderator** Thank you. Our next question is from the line of Pritesh Vora from Incedo. Please go ahead.

**Pritesh Vora** Sir I wanted to understand your Zambia operation, in terms of profit which you can take is it equally divided between government and yourself comparing whatever equity both have?

**M.N. Rao** No, as mentioned it is a joint venture on 65:35 basis, where 65% shares are held by Nava Bharat Singapore and 35% by the Zambian government -ZCCM Investment Holding Company.

**Pritesh Vora** And that is for 20 years contract, right?

**Management** No, the PPA is what we mentioned is about 20 years PPA.

**Pritesh Vora** Okay, and contract?

**Management** The contract is a long-term investment, it is investment in equity., the investment of 65% is done by Nava Bharat.

**Pritesh Vora** It is clause or you can run as long as the power runs?

**G.R.K. Prasad** It is ownership basis,.

**Pritesh Vora** And presently you are doing coal mining, does it generate any revenue, I mean does it generate any EBITDA or something of the coal mining or no?

**G.R.K. Prasad** See, let me explain again. Now the coal mine has got both the low grade coal as well as high grade coal. The high grade coal whichever is being produced after washing it is being sold to the industries in Zambia. Right now what is happening is whatever coal that is being produced as high grade coal is being sold outside and the mining operations are right now just about positive, as I told you they are cash



neutral and just making positive. Whatever are the low grade coal or mid-grade coal that is being produced is going to be consumed as a raw material in the power plant.

**Pritesh Vora** Raw material in the power plant which you will start in sometime June-July next year, is it?

**G.R.K. Prasad** Yes, but whatever I think almost requirement of the first 1 year or 1.5 year coal has already been produced and mined and is kept as a reserve. That means the first one year of the operations of the coal mine from July '16 onwards for about more than a year the coal has already been produced and then kept as a stock.

**Pritesh Vora** And what is the CAPEX which you already spent in the coal mining or the CAPEX figure which you have given is for both coal and power together?

**G.R.K. Prasad** Yes, I think if you look at out of the \$840 million of coal plant, approximately \$100 million is for the coal mining, with coal CAPEX and then the coal mine development expenditure, so approximately about \$750 million is for the power plant.

**Pritesh Vora** So how is the contract awarded I terms of you gaining your fixed ROE return, is it coal plus power put together or how do you actually contract awarded?

**G.R.K. Prasad** PPA is for the power obviously, but effectively the ROE what we indicated earlier is mostly on entire investment.

**Pritesh Vora** ROE is on investment?

**G.R.K. Prasad** Yes. What we mean, the returns that we are going to get of the sale of the power as well as the sale of high grade coal will yield us a total amount of approximately 20% ROE on the entire investment of \$850 million.

**Pritesh Vora** So that is not worded in the contract, that is your assumption that it will yield that much ROE?

**G.R.K. Prasad** Obviously, what we mentioned earlier is that approximately it will get return on equity on the total investment made, obviously the PPA cannot be entered about that way.

**Moderator** Thank you. Our next question is from the line of S Raju from Laburnum Capital. Please go ahead.

**S Raju** Just coming back to a couple of questions, so as I understand that the financing for Maamba, US\$ 365 million were from Chinese banks which were closed in February 2015, the other US\$ 225 million were closed recently right and that includes the African Development Bank and one or two African Commercial Banks. What is the breakup between these two, how much is the African Development Bank doing and how much are the African commercial banks doing? And given that the African Development Bank normally insists on some form of sovereign guarantee, was that actually part of the package or have they made an exception and done it without a sovereign guarantee?

**P.J.V Sarma** Let me give you a clearer picture. The total debt that is contracted is US\$ 515 million, out of this US\$ 515 million, US\$ 150 million is coming from two development financial institutions and that is not African Development Bank, I just



wanted to correct that. Development Bank of Southern Africa (DBSA) is providing US\$ 100 million and Industrial Development Corporation (IDC) is providing US\$ 50 million, so that makes US\$ 150 million. So, US\$ 515 minus US\$ 150 million is US\$ 365 million, out of US\$ 365 million, US\$ 150 million is coming from ICBC Bank of China and Bank of China is giving US\$ 150 and US\$ 40 million is coming from Standard Chartered Bank and another US\$ 25 million is coming from Barclays Africa, so that is a breakup of US\$ 515 million.

Yes you are right, the total debt that was to be given is US\$ 590, the balance is US\$ 75 million which is under discussion with couple of banks, but pending that as we mentioned the sponsors have put in a bridge loan to cover that, that will get replenished in the next three to four months by two more banks which we are under discussion.

**S Raju** Is there a sovereign guarantee or no?

**P.J.V Sarma** There is partly a sovereign guarantee as the total power is being consumed by ZESCO that is Zambian Electricity Supply Company which is backed by their intern power sale to one major mining company. So until they are going into power sale agreement, the power sale agreement is getting signed maybe after some time so the government guarantees that is being provided is till the time the power sale agreement is finalized and signed as the lenders wanted some sort of government guarantee that is what is being provided by the government.

**S Raju** So initially it is a government guarantee and then once the PPA with first quantum is signed after that is it effectively a first quantum guarantee, so what we are really taking bet on is that first quantum smelter should be viable and they should have no reason to default on the off take with ZESCO which means ZESCO has no incentive to default on us, is that a fair assessment for credit risk here?

**P.J.V Sarma** Yes, the credit risk finally gets shifted to effectively the first quantum which is going to be off taking the entire power. Until such time, yes government guarantees are given.

Till such time the entire PPA is effective, the power sale is effective and the first quantum starts building in, in fact first quantum right now is in wanting the power at the earliest.

**S Raju** And just one question, on your domestic Telangana merchant power business, is there any risk that the Telangana Government might do what the Odisha Government does and interfere with your ability to sell merchant or force you to sell to the grid, or how do you assess that regulatory risk in Telangana?

**G.R.K. Prasad** Well, currently we have been selling to Telangana grid and we would be happy to sell to Telangana grid, so the regulatory risk you are talking about is actually not applicable here, we would rather be selling to southern grid when the situation warrants that southern grid pays the highest at this point.

**S Raju** No, what I meant is right now the grid is basically paying you the market price, what if they step in and force you, I do not know what the legal mechanism would be but State Governments have done strange things, what if they force you to commit to long-term power for them at a low rate.

**G.R.K. Prasad** Well, you are talking about Section-11 kind of restriction in terms of emergency, that is only for power actually, not for rate, the rate is always determined by market.



If you recall even Karnataka had similarly imposed restrictions but the market price was higher, it was prevailing market place at that time.

- Moderator** Our next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar** We were supposed to produce around 1 million tonnes of high grade coal, so do you see that happening in FY17 and do you see a pickup in industrial activity in Zambia, so that we can sell close to 1 million tonnes?
- G.R.K. Prasad** We would certainly hope so because currently our target for this year is about 500,000 tonnes so there is no reason why we should not improve upon that because there are number of industries, new cement capacities coming up . So we do not see why that should not happen, but probably if not in FY17, than FY18 I think is certain possibility.
- Mohit Kumar** And another 300 MW power plant of EMCO is coming up nearby; I think the coal is supposed to be supplied from Maamba Collieries. Is that true?
- G.R.K. Prasad** There is no such understanding nor is there any kind of an assurance like that for EMCO, I don't know where this news came from, let the record be straight, there is no understanding as such.
- Mohit Kumar** And any profit on high grade coal apart from 20% ROE which you have been indicating, or is it a part of the deal? 20% ROE is on the overall business?
- G.R.K. Prasad** 20% ROE is a factor of overall operations, but if you split actual ROE for power that would be slightly higher.
- Mohit Kumar** And there is a 1,000 MW PPA floated by Andhra Pradesh for import based power plant, so are we participating in that and when is the supply expected to start under this bid?
- G.R.K. Prasad** There are certain entry restrictions, for that of course our subsidiary 150 MW unit will be participating in that bid.
- Mohit Kumar** Has the bid been submitted or is it still in the process?
- G.R.K. Prasad** No, not yet.
- Mohit Kumar** And when is the supply supposed to start?
- G.R.K. Prasad** I think there is a lot of uncertainty about that.
- Mohit Kumar** And just last book keeping question, what was the PLF at Odisha power plant and AP power plant on a standalone Company?
- G.R.K. Prasad** AP power plant, the PLF has been around 80% excluding Nava Bharat Energy which is slightly higher, it is about 85%. Odisha unfortunately was about 45%.
- Moderator** Thank you. Our next question is from the line of Amit Golchha from Emkay Global. Please go ahead.



**Amit Golchha** You mentioned that the consolidated debt is about ₹1,300 crore out of which ₹ 410 crore is in Nava Bharat Energy and the rest of the India operations.

**M.N.Rao** No, the consolidated debt in India is ₹304 crore of Nava Bharat Energy and ₹106 crore of Nava Bharat Ventures, so that is ₹410 crore.

**Amit Golchha** Right. And for Singapore subsidiary you mentioned ₹420 crore?

**M.N.Rao** Yes, we have ₹ 420 crore of debt in Singapore subsidiary.

**Amit Golchha** That essentially is invested into?

**M.N.Rao** That is invested in our Zambian Company.

**Amit Golchha** Zambian company as equity?

**M.N.Rao** Yes, as equity.

**Amit Golchha** And then the bridge loan is in Zambian company itself?

**M.N.Rao** Yes, bridge loan we have taken in Zambian company itself that is US\$ 80 million which was repaid after drawing this first installment.

**Amit Golchha** But if I look at your FY15 debt, the total debt is about ₹1,800 crore and the breakup which you gave is for about ₹1,300 crore, so where is the balance debt?

**M.N.Rao** The US\$ 80 million is also included.

**Amit Golchha** Yes. US\$ 80 million is roughly about ₹480 crore or less than ₹500 crore, Singapore subsidiary is ₹400 crore and Nava Bharat Energy and Nava Bharat Ventures is ₹ 400 crore. So all put together it is roughly ₹1,300 crore?

**M.N.Rao** I will get back on this, let me look at 31<sup>st</sup> March 2015 figures and I will come back to you.

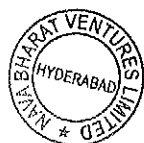
**Amit Golchha** Alright. The second question is on the original CAPEX in Zambian project was around \$750 million and the current CAPEX which you mentioned is for \$840 million, so is the PPA which you had signed was based on \$750 million, so was it that the original ROE and the PPA could have been higher than the current ROE, whatever you are estimating now?

**G.R.K. Prasad** Yes, of course. \$750 million has never changed, \$750 million for power remained same, what you are talking about is an integrated project cost which is \$840 million, and the ROE for power is definitely higher, yes. What we are talking about ROE is a consolidated operations from Maamba from Zambia.

**Amit Golchha** Sir just to understand it better, it was always that the integrated project cost was \$840 million.

**G.R.K. Prasad** It was about \$800-odd million, it has slightly moved up after the appraisal. They wanted some additional provisioning required, so with that it has moved up.

**Amit Golchha** So is that built into the PPA?



**G.R.K. Prasad** \$750 million; yes it has been built into PPA.

**Amit Golchha** And sir the coal inventory which is lying, the low grade inventory for the power plant, is it already expensed or is it carrying a value in the balance sheet?

**G.R.K. Prasad** It has been carried at cost.

**Amit Golchha** Okay. So basically this will be built into your PPA and it will be based on cost plus whatever cost is there?

**G.R.K. Prasad** Yes, there will be a transfer price for fuel, so that will be built in effect to that.

**Amit Golchha** So essentially what I was trying to understand is that for next one year whenever you start the plant, is it that you will make much more profits because of the inventory which is lying already or it will be similar to what you will be making in future because it is carrying a value in your balance sheet?

**G.R.K. Prasad** It is like this actually, see we are talking about inventory value which probably imputed the whole hog of initial extraction of soft and hard overburden to get the inventory out, so I would say as a value probably it would not change much on a year-on-year basis. What would happen is it will have a cash flow advantage where in the first year it would be hauling the whole coal that is already available rather than extracting the coal.

**Amit Golchha** So in terms of cash flow you will benefit basically?

**G.R.K. Prasad** Slight benefit is there, yes.

**Amit Golchha** And sir lastly, the high grade coal which you are selling right now, I do not know if you have mentioned in the call, I would have missed it but what is the kind of margins which are making today, so let's say sell about 500,000 tons in this year, what is the cash cost and what is the margin which we are making at the current prices?

**G.R.K. Prasad** Well, difficult to put in number, I think we were actually losing a little there earlier, now the situation has come about where in the first quarter we made a small profit and coming months we expect the volumes to be hovering at around 35,000 tons to 40,000 tons a month. So our estimated profit at this point of time could be about a million.

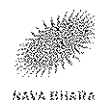
**Amit Golchha** So essentially it is the function of cost rather than function of price?

**G.R.K. Prasad** It is actually both with prices more or less being static.

**Moderator** Thank you. Our next question is from the line of Pritesh Vora from Incedo. Please go ahead.

**Pritesh Vora** Sir you mentioned about your Zambian take or pay clause, due to any reason if electricity is not taken by the off-taker, who pays for this take and pay clause, is it the government or is it company which is buying this power?

**G.R.K. Prasad** See, the take or pay clause is in the PPA which we signed with the ZESCO that is the Zambian utility. So it is the Zambian utility which is responsible to pay the capacity charge on deemed generation basis or availability basis.



**Pritesh Vora** Deemed generation basis is it?

**G.R.K. Prasad** Yes, what is popularly known as deemed generation but what we call it as availability based tariff.

**Pritesh Vora** And are these utility companies in Zambia are cash rich or what kind of credit...?

**G.R.K. Prasad** Well, it is small utility but I think they are much better than what we have in domestic scenario, we are talking about one utility there.

**Pritesh Vora** And they have back to back arrangement to sell it to industrial units?

**G.R.K. Prasad** Yes industries in copper mining where there is a specific target customer called First Quantum Group of companies, it is a Canadian outfit, it is a very-very large copper company -that is the target group.

**Pritesh Vora** And it goes 100% to them?

**G.R.K. Prasad** Yes.

**Pritesh Vora** 100% power whatever you produce goes to First Quantum?

**G.R.K. Prasad** Well, it is delineated for them, obviously power is fungible so whatever power that we make available to the utility they plan on selling that power to that company.

**Pritesh Vora** And that company is operation whatever the copper splitting, that is on schedule to commission simultaneously with your commissioning at power plant?

**G.R.K. Prasad** They are ahead actually, they are wanting the power, like today.

**Moderator** Thank you. Our next question is from the line of S Raju from Laburnum Capital. Please go ahead.

**S Raju** Two other questions, one is just coming back to the 150 megawatt IPP in Paloncha, now that probably meets the threshold where you could sign a PPA, right?

**G.R.K. Prasad** Yes.

**S Raju** Given that the rest of your capacity is kind of forcibly merchant would you consider putting that on a long-term PPA to kind of smooth out the power earnings?

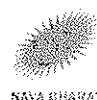
**G.R.K. Prasad** Yes, that is one of the ideas, yes.

**S Raju** And over what timeframe would you be looking to do that?

**G.R.K. Prasad** Well, opportunities have to arise right. There is one opportunity now with the Telangana grid which we are pursuing.

**S Raju** As state governments issue tenders for PPA as you would look at bid and if you won any of those you would go back and then use that to get a linkage?

**G.R.K. Prasad** Yes.





**S Raju** And secondly, obviously Maamba is going to start throwing off cash now, is the idea that we should expect to see that cash used in Laos, in Tanzania or both, what is the next kind of hurdle or horizon for expansion for the company?

**G.R.K. Prasad** Well, it is probably healthy, but I think Zambia itself affords expansion, definitely because of the current infrastructure that is getting built will cater to expansion easily, especially, water circulation and power evacuation. They will be more balanced if we have 600 megawatt or 900 megawatt, but 600 megawatt definitely can be done at much better cost I would say.

**S Raju** So no meaningful CAPEX in Laos stands anywhere, other than Zambia in the near future?

**G.R.K. Prasad** Even Zambia is not kind of frozen and there is no other CAPEX plan.

**S Raju** So the next year or two the idea is just to consolidated, get Zambia up and running, start paying down the debt, all of that?

**G.R.K. Prasad** Exactly.

**Moderator** Our next question is from the line of Pritesh Vora from Incedo. Please go ahead.

**Pritesh Vora** Is this contract with Zambia, is it in US dollar and is there any clause you can take the money back home or what is the plan for whatever the cash generated at Zambia?

**G.R.K. Prasad** It is actually denominated in US dollar cents, Zambia of course is already under capital account convertibility, so there is no restriction on taking the capital out.

**Pritesh Vora** But you plan to take it out or you plan to invest as you mentioned just now in the question?

**G.R.K. Prasad** Well, our first I would say objective is to run and then see what investment can be done later.


**Moderator** Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

**G.R.K. Prasad** Thank you very much. It has been excellent interacting with you all. If there are any remaining questions that need answers please get back to us, me and our team would be more than happy to answer. Thank you very much.

**Moderator** Thank you very much Member of the Management. Ladies and Gentlemen, on behalf of Nava Bharat Venture Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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For NAVA BHARAT VENTURES LIMITED

  
Executive Director

