



NAVA BHARAT

Nava Bharat Ventures Limited

Q2 FY16 Earnings Conference Call Transcript 03.00pm IST on Tuesday, November 10, 2015

Moderator

Ladies and gentlemen good day and welcome to the Nava Bharat Ventures Limited Q2 FY16 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 phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you sir.

Siddharth Rangnekar

Good afternoon and thank you for joining us on the Q2 & H1 FY2016 conference call of Nava Bharat Ventures Limited. The call will discuss Company's performance for the quarter and half-year ended September 30th 2015. Joining us today on the call are Mr. G.R.K Prasad – Executive Director, Mr. T. Hari Babu – CFO, Mr. P.J.V. Sarma – Director, Nava Bharat Projects Ltd. and Mr. M.N. Rao – VP (Finance).

We will commence with key thoughts from Mr. Prasad and this will be followed by an interactive session, wherein you will get the opportunity to get your queries addressed. I would like to caution that some of the statements made on the call today could be forward looking in nature and the Company and members of the management do not undertake to update them later in the light of changed circumstances.

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

GRK Prasad

Thank you Siddharth. Let me take this opportunity on behalf of the entire team at Nava Bharat to wish you a very Happy and Prosperous Diwali. Our Consolidated Profit After Tax stood at Rs. 680 Mn. and at Rs. 1,085 Mn for Q2 and H1 of FY16 respectively. The trend was principally set by our subsidiary Nava Bharat Energy, where contribution from our 150 MW power plant was robust. This followed availability of Indian coal that substituted imported coal during the period. Contribution from coal operations at Zambia was healthy. I am glad to report that the Zambian subsidiary was able to make a positive contribution from coal sales in H1.

Coming to the standalone business, Q2 Total Income was at Rs. 2,420 Mn and Profit After Tax for the period stood at Rs. 194 Mn. The corresponding figures for H1 FY16 were at Rs. 4,426 Mn and Rs. 323 Mn respectively. The performance



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largely reflects the sectoral constraints that we have been facing in the Ferro Alloys and Sugar businesses, which we see continuing for some more time.

Power business at Telengana & Andhra Pradesh derived benefit of favourable merchant rates in the relatively isolated Southern grid. H1 performance was however impacted due to a major planned maintenance outage in the 50 MW unit in Telangana and grid curtailments in the 150 MW unit operated by Nava Bharat Energy. The new 60 MW unit in Odisha was idled due to pending compliance of certain grid conditions and merchant sales being unfeasible.

Ferro Alloys remained challenging given the muted trend in the primary steel and stainless steel industries internationally which impacted the performance of Ferro Alloy operations. On the positive side, Ferro Chrome operations have now stabilized from October following the resumption of the conversion of high carbon ferro chrome with Tata Steel.

The continuing weakness in sugar prices has severely affected the Sugar operations in H1. Efforts of the State Government in removing VAT coupled with Central Government's measures to limit imports have helped mitigate the mismatch to some extent towards the end of H1.

On the international front, the Zambian 300 MW power project implementation is on track to meet the scheduled commissioning by July 2016, as guided earlier. In Laos, Nava Bharat Group continues to make efforts towards a viable EPC structure to facilitate project financing on a limited recourse basis. We expect an appropriate investment decision on this project by the end of December 2015.

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. We have first question from the line of Anurag Das from Florinetree Advisors. Please go ahead.

Anurag Das:

Can you update us as to how your outlook would change in the wake of the most recently announced - UDAI program for power sector restructuring because they seem to be giving preference for larger power projects largely in terms of coal linkages and also with the improvement in the connectivity in the grid, the merchant power prices and general power prices in the Southern region might go down, you seem to be currently benefiting from the higher rates in the Southern region?

GRK Prasad:

Probably you are right to some extent. Basically, we have been deriving significant advantage in the Southern region being isolated as of now and this situation we have been told is, expected to continue at least for a year or more, so while we take comfort in having slightly better than the average rates that are obtained elsewhere in the country. We are also geared to face the challenge that, once the connectivity is fully established, the rates might actually sober down, we feel that probably that would happen from 2017-18 onwards. So while those rates will happen, you would also understand that our competitiveness in terms of cost also would be adequately measuring up. So, with the fixed cost mostly being recouped by then, we would be in a position to compete in those rates as well.

As far as the government's decision to help the distribution companies is concerned, I think it is a welcome move, so we are expecting some relief from the



active demand managements that the DISCOMs have been resorting to, which should help power purchase in general and merchant power rates also to slightly moveup across the country, so that is our expectation at this point.

- Anurag Das:** How would the coal allocation change?
- GRK Prasad:** We have been buying coal through E-auction as far as the one where no linkage exists i.e, our 150 MW power plant, so there is no problem really. We have been getting the coal adequately and we are also getting coal at a reasonable rate which gives us this confidence that even if power flow harmonizes in about couple of years, we should be in a position to compete with the other generating companies.
- Anurag Das:** Can you tell us how the contract with Zambian power project is structured because what we understand there is a guaranteed ROE or there is a guaranteed IRR, we are sort of little confused about how it is structured?
- GRK Prasad:** Our Zambian power company is an IPP and it has entered into a PPA with the local utility for 20 years on a take or pay basis. The PPA tariff is structured in such a way that total cost is taken into account and the equity is also factored with an average rate of about 22%. There are certain escalable factors in the tariff but they are very minor because we are talking about a pit head power station there and whatever escalations that would happen relate to mostly wages, the consumables etc. on US PPI basis. The PPA is currently backed by a Government guarantee because the local utility is in the process of concluding sale arrangements with the immediate off-taker, which is a large Canadian company called First Quantum Group. Pending those PPAs to be in place, there is a Government guarantee which is behind Zesco, being utility there. Zesco's obligations are thus guaranteed by the Government till escrow arrangements are concluded and payment performance is proved for a reasonable period.
- Anurag Das:** So, the 22% that you mentioned; that is more like an IRR over the 20 year life of the PPA is it?
- GRK Prasad:** Yes.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** Can you please give us the breakup of revenue, EBITDA and PAT from the power subsidiary and from the Zambian mines?
- MN Rao:** For Q2, Nava Bharat Energy; the Profit after Tax stood at Rs. 42.6 crore while the EBITDA is Rs. 49.05 crore.
- Mohit Kumar:** Can you give us the similar figure for the mining operation in Zambia?
- MN Rao:** For mining operations in Zambia; H1 FY16 profit after tax stood at Rs. 1.56 million.
- Mohit Kumar:** And for the quarter?
- MN Rao:** I do not have the quarterly numbers currently.



- Mohit Kumar:** And what was the quantity of high grade coal that we have sold in this quarter and what is run rate right now? Has it improved?
- MN Rao:** For Q2, we have sold close to 60,000 tonnes of high grade coal and for H1 close to 1,00,000 tonnes. And we are on a run rate of close to 30,000-40,000 tonnes per quarter as of now.
- Mohit Kumar:** And can you please update us on the Zambian power plant in the sense how much of the CAPEX have been done and what is the consolidated debt at the end of September 2015 and how much of the debt has been drawn from the recent financial closure?
- PJV Sarma:** I will give you a brief on the total cost of the project and how it is getting financed. The total cost as we have mentioned in the last conference call is \$830 million, which includes \$100 million for coal mine revamping, so the cost of power plant project is around \$750 million. The total cost of \$830 million is getting financed in 70:30 debt: equity. So the total debt component is approximately \$590 million, out of which \$515 million has been tied up and the financial closure was completed on the 29th of July.
- Now as against \$515 million, the first installment of 70% has been drawn, i.e., USD \$370 million is actually the loan drawn..
- Mohit Kumar:** So how much is the consolidated debt on the books of the Company?
- MN Rao:** Consolidated term debt on the books of the company is around Rs. 3,200 crore which includes MCL debt of USD. 370 million, debt on the books of Nava Bharat Singapore is USD. 65 million, Nava Bharat Energy is having something around Rs. 290 crore and Nava Bharat Ventures is having something around Rs. 87 crore. So, the total term debt is Rs. 3,205 crore.
- Mohit Kumar:** One question on the Odisha power scenario; we have read that Odisha is facing a severe power crisis this year and they are trying to procure as much power from the captive power plant. So has this changed something for us or will it change going forward in the next couple of quarters?
- GRK Prasad:** Yes, Odisha Government has asked the local generators, which are just captive generators to give all the surplus power to them. Currently, the rate is under negotiation by these generators. As far as the second unit of our 60 MW power unit there, it is an IPP; that IPP under the current dispensation is entering into a PPA with GRIDCO to make them entitled to around 12% of the power generated on a first right basis. Now, that rate is calculated at the variable cost of the unit as determined by OERC. Aside from that 12%, I understand GRIDCO has been asking us to makeover the entire power to them for which we are also waiting for that rate to be finalized. We expect that rate to be finalized probably by end of November or so, in which case for next 4 months or so, we should be in a position to deliver power either to GRIDCO or to outsiders., Before we do that, we have to comply with certain grid conditions, like getting the PPA cleared by OERC and have some tests done to prove the capacity before GRIDCO. So, we expect some kind of operations from the new 60 MW units; maybe, commencing from January. At this point of time, that is the estimate we have.
- Mohit Kumar:** What is the update on the ferrochrome conversion arrangement, how much is the volume that we did in October 2015?



GRK Prasad: I think in October we did about 5,000 MT at a full rated capacity of the smelters.

Moderator: Thank you. The next question is from the line of Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit: Firstly, on the 64 MW Odisha power plant, I think you mentioned about tying up with GRIDCO for that or selling it in the open market. My question is, in your press release you have mentioned that the coal costs have come down quite dramatically in the domestic market and availability is also gone up. Will that make this plant more viable given what kind of rates that we are seeing in the open market, as in, let us say, if you are able to kind of sell it at Rs. 4 per unit, will Rs. 4 per unit be viable for us, will we be able to sell that?

GRK Prasad: Yes certainly. We are incurring cost for coal through E-auction and at the current cost, we should get positive contribution for any price beyond Rs. 3 per unit. So, I expect the full cost to be recovered at Rs. 3.30 per unit or so.

Ravi Purohit: So, if you get a price which is anywhere in the north of Rs. 3.50 per unit or around Rs. 4 per unit, than I think we will be more than happy to generate and distribute the power, is it?

GRK Prasad: I think anything above Rs. 3 per unit should be good, because then it goes to recover a part of the fixed cost.

Ravi Purohit: And is that the rate GRIDCO has been paying in the past, as in, in more recent history with the other power purchases or do we have any benchmark with what GRIDCO has been paying?

GRK Prasad: Well there is no real benchmark, it is a negotiation tariff more towards surplus power from the captive power generated in the State. There is no IPP rates which off course needs to be cleared by OERC. So that rate we are just waiting, so if that rate is amenable, probably we can offer that rate to GRIDCO, otherwise, we will be free to sell outside, subject to our complying with certain last mile conditions, which GRIDCO has imposed off late.

Ravi Purohit: And secondly, on ferro chrome conversion, you made the comment that we produced 5,000 tonnes in the month of October, I think last time around our agreement was about 40,000 - 50,000 tonnes a year, so this time is the tolling arrangement for a higher capacity or the entire capacity on the ferro chrome?

GRK Prasad: Well, 65,000 tonnes is the per annum capacity and that is the agreement. So, that is the full capacity that we have for smelting.

Ravi Purohit: So in that sense, the quarterly losses in ferro chrome that we have been seeing in the ferro alloys division for the last 3-4 quarters, those going forward should hopefully reduce significantly once the tolling arrangement is in full operation.

GRK Prasad: Yes, see the only issue before us; as far as the current operations go, we are positive as far as Odisha is concerned. It is not even reducing losses but what we have is; inventory, that inventory we hope will get sold in the next few months at the rate that we have factored in our books. But the market being slightly volatile, there may be a slight loss on account of inventory but overall we expect the Odisha operations to be positive.



- Ravi Purohit:** And what about silico manganese; is that profitable or will that continue to struggle although ferro chrome is in place now?
- GRK Prasad:** Yes, silico manganese also is trailing a little because primary steel is facing a very stiff competition all over the world now, thanks to China's exports. So, we expect that situation to continue for some time. Luckily for us, we have flexibility to reduce the production in Telangana works and makeover the surplus power to the grid, so that is the flexibility which we are leveraging upon.
- Ravi Purohit:** And in the recent times, we have seen sugar prices moving up significantly and some of the sugar companies which have reported numbers for the September quarter have been pretty good. Is that something that you also expect going forward, turnaround in your sugar business because right now at the segment level it is making losses?
- GRK Prasad:** Well, we are yet to see that happening on the ground. Yes, there has been a slight improvement in the prices, what were prevailing as obnoxiously low prices have since moved up significantly. But they are still less than the overall cost, but with emphasis on the bi-products, we hope to weather the storm in this year. But we are looking at other alternatives too; one is of course improving valuation for bi-products; that is being seriously considered.
- Ravi Purohit:** Last quarter, Nava Bharat Energy reported profit of around Rs. 30 crore and in this quarter I think it has probably jumped up to Rs.40 crore plus; any specific reason as to whether was due to increase in volumes, was it increase in spread because of lower coal cost, if you could just share?
- GRK Prasad:** Well, I cannot give you a breakup; it is a combination of both. We have slightly better prices and availability this quarter in terms of generation and also the average cost has slightly gone down.
- Ravi Purohit:** So mix of both?
- GRK Prasad:** Yes.
- Ravi Purohit:** And one last question; we had made advances from our Singapore subsidiary to the Maamba SPV and it was mentioned that once the financial closure is done and once the other SPV receives money from the financial companies than those loans and advances will come back to the Singapore subsidiary and therefore the debt of the Singapore subsidiary would probably go down or be repaid. So, has anything come back from the Maamba SPV or we are yet to see that?
- GRK Prasad:** We are yet to see that; probably in the next 3 months we should be able to unfold that.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** Have we done the boiler hydro test of both the boilers at Zambia?
- GRK Prasad:** Yes, we have completed the hydro test for both the boilers; the erection of turbines is going on in both the units.



Mohit Kumar: Is there any chance that one of the units will get commissioned prior to March 2016?

GRK Prasad: Not likely, that is a bit aggressive, probably in May our first unit might, I mean we are targeting May for the first unit to be commissioned.

Mohit Kumar: And for Nava Bharat Energy India, our 150 MW power plant, what is the proportion of coal source of E-auction and how much was imported coal?

MN Rao: It is 80-20. Domestic coal is 80% and 20% is imported coal.

Mohit Kumar: Same as the last quarter, right?

MN Rao: Yes.

Moderator: Thank you. We have a follow up question from the line of Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit: A follow up question on the Odisha 64 MW power plant. In the previous calls, we had mentioned that we were looking to also identify some strategic partners or if there are any large companies in Orissa, who need that kind of a power, so we can probably tie-up, is that something that we are still working on or that is off the ground, and that we are talking to GRIDCO for this or all the options are still open for us?

GRK Prasad: Well that is a long-term plan.

Ravi Purohit: Okay and will that also be true for let us say rest of our power capacities for instance Nava Bharat Energy Limited because like you mentioned once the Southern Grid comes into National Grid, there could be some pressure on realizations although your cost may also go down because of fixed cost absorption and also coal cost being as low as they are, so is there something that we are thinking for NBEIL as well so the entire merchant power capacity of ours or how is the management seeing that?

GRK Prasad: Well, as far as NBEIL is concerned, we probably might be having an opportunity to bid for medium-term power sale to the local grid i.e. one opportunity which seems to be arising. So we would probably put that as a priority one that should help the unit strike an optimum arrangement for at least 5 years and definitely, if that does not work out, we may have to look at some other alternative as you had put it.

Moderator: Thank you. That was the last question from the participant. I would now like to handover the floor to the management for their closing comments. Over to you sir.

GRK Prasad: Thank you very much for all the questions and Happy Diwali to all the participants. Thank you once again.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Nava Bharat Ventures Ltd., that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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