



Nava Bharat Ventures Limited
Q3 & Nine Months FY13 Earnings Investor/Analyst Conference
Call Transcript
February 01, 2013

Moderator Ladies and gentlemen, good day and welcome to the Nava Bharat Ventures Limited Q3 & Nine Months FY13 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Monish Shah. Thank you and over to you sir.

Monish Shah Thanks Myron. Good afternoon, everyone and welcome to the Nava Bharat Ventures Limited Q3 & 9 months FY 13 earnings conference call. We are joined on the call today by Mr. G.R.K Prasad -- Executive Director; Mr. P.J.V Sarma -- Director; Mr. T. Hari Babu -- CFO; and Mr. M. N Rao -- General Manager, Finance. The call will commence with observations from Mr. Prasad that will be followed by an opportunity to post questions to the management. I would now like to call upon Mr. Prasad to share his views. Over to you, sir.

G. R. K. Prasad Thank you Monish. Good afternoon, I trust you would have had the opportunity to peruse our results for the quarter and nine month period ending December 2012. We trust that the income and the profit are in line with your expectations.

I would like to use this opportunity to share some operational insights with you.

First on the Domestic front;

Barring the Odisha unit operations, performance of all the plants for the quarter was quite satisfactory. From the disclosed quantitative figures, you would have seen volume growth in ferro alloys and power generation. The operations of the Odisha ferro chrome unit for the quarter was at the

optimum level though on the power plant side interstate transmission constraints and maintenance outages adversely affected the realizations and generation volumes respectively. As the steel market in India and abroad regulated the off-take of Ferro Alloys in the last leg of last quarter, production of silico manganese was cut down and resultant surplus power was diverted for merchant sale in AP Unit. Sugar unit turned out better profitability which is likely to be sustained in the current quarter coupled with accretions on account of inventory of sugar and by products.

The new 64 MW power plant at Odisha still awaits the approvals from the State Government and its agencies. We are hopeful of reaching a resolution and commence operations in the current quarter. The 150 MW power project being implemented by the step down subsidiary which is Nava Bharat Energy India is scheduled to be commissioned in the next few days in this quarter.

On the International Front; The Zambian subsidiary has completed the coal mine development and all the development expenditure has been incurred. While sale volumes are low at present, it expects that off-take will rise to about 300,000 Mt in FY 2014 and more in later periods on account of new large customers in Zambia commencing operations and expanding market beyond Zambia especially to Congo and Namibia. The 300 MW power project works, being carried out by SEPCO is well on track. Substantial work has taken place on ground. Financial closure for the Zambian venture is expected by July 2013 while a combination of equity from Sponsors and bridge finance will keep up the pace of project implementation till FC is achieved. We expect that our investments in Tanzania for agro based industry and the hydel power project in Laos will require some more time of development before reaching commitment stage.

I would now like to request the moderator to open the session for Q&A with our team. Thank you.

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| Moderator | We have our first question from the line of Kishan Gupta from CD Equisearch, please go-ahead. |
| Kishan Gupta | Wanted to know how much do you think the power shortage in Andhra Pradesh is responsible for power margins? |
| G. R. K. Prasad | We are talking about the Southern grid as such, rather than Andhra grid only. We are talking about significant merchant power realizations in the Southern states like Andhra Pradesh, Tamil Nadu, Karnataka and Kerala as opposed to very lukewarm rates outside of the southern region. |
| Kishan Gupta | The power shortages have been quite severe in the recent past, do you think the margins are sustainable? |
| G. R. K. Prasad | Are you talking about the rates? |
| Kishan Gupta | Yes, merchant rates. |

G. R. K. Prasad The merchant rates in Southern region would sustain probably for the next couple of years. When everybody expects the transmission corridor to be completely strengthened and then we might have power flows from North and West coming down to South as well.

Kishan Gupta How much is the current capacity utilization for you, in Power business?

G. R. K. Prasad In AP our capacity utilization is well above 95%. The Odisha unit PLF for the quarter was about 57% which was because of the reduction in generation volume on account of maintenance outage and to certain extent because of the low realizations that were obtained.

Kishan Gupta If I see your nine months capacity utilization it works out to approximately 75%?

M. N. Rao It is 80%.

Kishan Gupta Is it only due to Odisha that the overall capacity utilization is low?

M. N. Rao Yes, it is mainly due to Odisha only.

Kishan Gupta Have capacity utilizations in Andhra Pradesh remained more or less at 90% or thereabout?

M. N. Rao You are correct.

Kishan Gupta Given by small margins in your Ferro Alloys, don't you think it is prudent to curtail the metal production and instead ramp-up the merchant power sales?

G. R. K. Prasad That is what we have been doing during the last leg of the last quarter as far as AP unit is concerned.

Kishan Gupta But if I see your nine months production it is higher than what it was in the same period last year. Is it the strategy the management has taken only in the last quarter?

G. R. K. Prasad No, it is like this. This is regulated on an ongoing basis. What you have seen is only the last leg of the last quarter when power sales realizations were marginally higher as against in the Ferro Alloys. In earlier quarter if you had seen, the Ferro Alloys turned out better profits and also better rates than merchant power realizations.

Kishan Gupta If I see a merchant power realizations are way higher than what is in Ferro alloys, is that right?

G. R. K. Prasad That is as of now, yes.

Kishan Gupta Can we see further metal production cuts in the 4th quarter to make way for higher merchant power sales?

G. R. K. Prasad Yes, I think that practice will continue. It is a question of toss between higher value addition from Ferro Alloys and that of merchant sales. So that practice continues.

Moderator We have the next question from the line of Bharanidhar Vijayakumar from Spark capital, please go-ahead.

B Vijayakumar I thought at Odisha the realization that we got after negotiations the last time around when we had few problems was around ₹ 3 per unit and you are saying that it has become a little unviable, is that why there was a step down in PLF?

M. N. Rao Yes, because of turbine overhaul at 30 MW power plant which has continued for almost two months. That is why the PLF was less in Odisha.

B Vijayakumar I heard Mr. Prasad mentioned due to low realization.

M. N. Rao Even that is also one of the reasons for us for taking the turbine overhaul.

B Vijayakumar The realizations there are about ₹ 3 per unit from Gridco, right?

M. N. Rao Yes.

B Vijayakumar And from the numbers I see there has been no sales to Gridco this quarter, is that right? Because the bifurcation of numbers says merchant sales and captive.

G. R. K. Prasad In Odisha the situation is no different between merchant realizations and that from Gridco. In fact you see the highest rate it has been hovering around ₹ 3/unit or less than ₹ 3/unit.

B Vijayakumar Any visibility for FY14 on the merchant contracts, any contract that has been tied up so far?

G. R. K. Prasad From A.P, yes, we are fairly confident that we would achieve about ₹ 5/unit.

B Vijayakumar You are confident but it is not tied up yet?

G. R. K. Prasad Partly tied up.

B Vijayakumar For how long?

G. R. K. Prasad This is for the financial year and the contract will get closed probably in March 2013.

B Vijayakumar From your FY12 P&L I noticed that there is ₹ 60 crores of other income at Maamba Collieries. What is the nature of this and will it recur?

G. R. K. Prasad No, this is a relief which was obtained by way of tax liabilities being waived.

B Vijayakumar Will it not recur? And you also mentioned that the mine development expenditure has been completed and it has been hitting the P&L in the last year and this year, am I right?

G. R. K. Prasad Definitely, we will have some charge this year also.

B Vijayakumar How much would it be totally? About US\$750 million of CAPEX for Maamba totally, how much would it be for mine development and power project and for the mine revival projects, is there a bifurcation that you can give me?

G. R. K. Prasad Let's confine to the project. The project for power would cost about \$710 million and for the coal mine CAPEX is about \$40 million. The mine development expenditure is outside of this.

B Vijayakumar Would you be able to give the variable cost estimates and the fixed cost estimates per unit for the power project once it gets operational at Maamba?

G. R. K. Prasad We would like to give you the update offline.

Moderator We have the next question from the line of Abhay Moghe from Avendus Securities, please go-ahead.

Abhay Moghe Of your Power revenues, can you share the share of various Discoms, how much is from AP and how much is from others?

G. R. K. Prasad Unfortunately, we do not keep that track.

Abhay Moghe Can you give a broad percentage if not exact number, but something like 20%, 30% or 40% which Discom and how much revenue share would there be?

G. R. K. Prasad We seem to be predominantly selling to the AP grid with very little going outside AP at this moment because of severe power shortage in AP.

Abhay Moghe The Section-11 is still applicable?

G. R. K. Prasad There is no Section-11.

Abhay Moghe The Discoms generally apply, they say that inter-state is not allowed, they do it for some time?

G. R. K. Prasad No, it is not in AP, that is only in Odisha.

Abhay Moghe Do you see any problems in the receivables, have the receivable days increased or they are stable?

G. R. K. Prasad Our only issue is related to money to be received from Gridco, which has been there for quite some time, but even that is also slowly coming down, it used to be about ₹ 30 odd crores, and now it has come down to about ₹ 19 crores.

Abhay Moghe Recently there was some news that Andhra Pradesh was trying to procure high cost power from gas-based plants which can be run on imported LNG and a regulator seems to have given approval for that. Will that affect any procurement from merchant power or something by the AP Discom?

G. R. K. Prasad No, our power is actually going to supplement their requirement. The gap is much wider than that. I do not think even that scheme is also going through. There are number of issues surrounding that scheme too.

Abhay Moghe Can you share what type of issues you have got?

G. R. K. Prasad Tough to say because I am also reading the same news.

P. J. V. Sarma Cost of that is going to be substantially higher than presently what they are talking about. Because, even if, you are talking about a gas-based plant and converting with alternate fuel and then doing it, that is going to be definitely more expensive than the present sources from which the AP Discoms are buying.

Abhay Moghe I also thought of the same, I think from imported LNG it would be somewhere around closed to ₹10/kWh, right?

P. J. V. Sarma More than 30-40% higher than the average cost from fossil fuel like coal. Secondly, as we said, it has not yet firmed up, it is only in the trust that is being talked about it, and I do not think any concrete actions have been taken up.

Moderator The next question is from the line of Shirish Rane from IDFC Securities, please go-ahead.

Shirish Rane Wanted to understand, on 64 MW Odisha plant, where are we in terms of commissioning it?

P. J. V. Sarma You are aware we have been mentioning from time-to-time that it is all ready for commissioning but the point is that there are couple of things which are just holding us up on announcing the COD and then bringing to the grid. Basically, the MoU that is required to be signed with Gridco is under negotiation. Very frankly, the pricing which is what they have to pay is a minimum percentage of power that they want to give it to Gridco that are under discussion. Now that there is no agreement on what proportion of the power will have to be given at free or at variable cost, etc. So there is no clarity at this point of time from Gridco as to what is the policy. The government has not yet fixed up the policy of purchasing the power at and the rate of this MoU. That is one thing. Secondly, some last minute approvals which have taken much more time than what we expected is another thing that is holding it up. These are the two reasons why the 64 MW really could not be put on to the grid. But hopefully we will do that as I told before March we are hopeful that we will be getting back into that.

Shirish Rane Secondly, on the 150 MW, have we fired the boiler and started the synchronization?

P. J. V. Sarma I think before FY13 we will definitely do it, it is all ready now in all aspects.

M. N. Rao The synchronization is due during last week of February.

Shirish Rane In Maamba, what would be the total coal sold so far I mean since you started mining?

P. J. V. Sarma Run rate of sales in Maamba is approximately about 1,20,000 for FY13-14. We started with around 7,000-8,000, it is growing up to around 10,000-11,000 tons per month.

Shirish Rane At what price we would be realizing for this?

P. J. V. Sarma Around \$42-43 dollars a ton.

Shirish Rane This is ex-mine, so this will not have any other expense of transportation?

P. J. V. Sarma All our prices are ex-mine. The transportation is to the purchaser's account.

Shirish Rane At this price do we make money or it just barely covers our mining cost?

P. J. V. Sarma Yes, it just barely covers the mining cost. It is more a break-even situation.

Shirish Rane Will the cost change once our mining operation goes up, if the monthly production goes up substantially, or will the cost also come down?

P. J. V. Sarma The overheads will be covered in a better way on a larger scale of production. That is going to happen over a period of time.

Shirish Rane In terms of this new unit of 150 MW, we had not tied in any off take. So as of now when we are looking at the merchant rate which you talked about to be in the region of ₹ 5, will we be entering into some kind of a long-term contract or a medium-term? Have you planned it for this 150 MW as well?

G. R. K. Prasad We would be entering into a short-term contract for probably first four months till May and then from June onwards another contract is coming up from AP till next May.

Shirish Rane Effectively the way you envisage till about next May, you will have some kind of contract which is at a decent price?

G. R. K. Prasad That's right.

Moderator The next question is from the line of Hardik Shah from ICICI Securities, please go-ahead.

Hardik Shah Can you share the blended cost of generation plant wise in AP as well as in Odisha?

M. N. Rao We will share that with you offline.

Hardik Shah Can you share the plant wise usage and price of linkage as well as e-auction coal?

P. J. V. Sarma In the case of AP plant the linkage coal and e-auction constitutes around 80% and rejects are 20%. In case of Odisha its linkage is around 60% and rejects around 40%. Month-on-month it varies, but broadly you can take it as an indicative number.

Hardik Shah Can you share the price data?

P. J. V. Sarma Price data varies a bit. But blended cost in the case of linkage is around ₹ 1,800 - ₹ 1,850/ton in case of the AP plant. In the case of Odisha plant it is around ₹1550 per ton.

Hardik Shah And e-auction coal?

M. N. Rao In fact we are not participating in the e-auction coal for our Odisha plant whereas in AP it is something around ₹4,000 per ton, for the grade coal of 4500 GCV.

Moderator The next question is from the line of Santosh Hiredesai from Edelweiss Securities, please go-ahead.

Santosh Hiredesai We have been buying rejects and what is the price we pay for the rejects and has this cost materially moved up in the last 6-8 months?

M. N. Rao There is no much movement on the higher side, the prices are stable since last 2-3 quarters.

Santosh Hiredesai What calorific value generally it ranges between, is it ₹3,000 – 4,000/ton?

M. N. Rao For the rejects it is something around 2,000GCV.

Santosh Hiredesai And what would be the broad price?

M. N. Rao For rejects it is around ₹1,250/ton of landed cost in case of AP and in case of Odisha it is around ₹ 2,000/ton.

Moderator The next question is a follow-up from the line of Prakash Goel from ICICI Securities, please go-ahead.

Prakash Goel You suggested that there has been bit of participation not in Odisha but in the other plant you have been buying the e-auction coal. What has been the movement on quarter-over-quarter, has it come down?

M. N. Rao It is stable, it has not come down nor has it gone up.

Prakash Goel What is the price that you are paying for the e-auction coal?

M. N. Rao It depends upon the GCV of the coal we are participating in the e-auction.

Prakash Goel You are not seeing any trend because we are getting feedback from various corners, there is a sharp drop in the e-auction realization and which should benefit your company?

M. N. Rao There is no sharp drop but there is a little drop.

Prakash Goel Is it around ₹ 100-200 per MT?

M. N. Rao Around 10% drop in the e-auction prices.

Prakash Goel And you are saying between last quarter to this quarter?

M. N. Rao Yes.

Prakash Goel If you can give us a flavor that how much quantum you could buy last quarter. Because a company like yours should be benefitting significantly, this is the sense we are getting on the e-auction side, so wanted to find out. You are suggesting that the quantum in the Odisha plant you did not buy any auction, what has been the reason for that?

M. N. Rao Linkage, coal and rejects are sufficient for us, for that we are not participating in e-auction coal in Odisha.

Prakash Goel Has the linkage supply has improved in these last two quarters?

M. N. Rao it is stable.

Prakash Goel Has the reject supply has improved?

M. N. Rao Reject supply is also stable.

Prakash Goel You have not been using the e-auction coal, because you said that the reason for using e-auction coal in past is the gap, now there is not much gap and that is one of the reasons you have stopped using e-auction coal, but for that to happen linkage or reject supply has to improve or the utilization of the plant has come down?

M. N. Rao No, in Odisha the utilization was something around 60% PLF during the previous quarter and there was no requirement of participating in e-auction, whatever the mine coal and the rejects that are available, are sufficient for running the plant.

Prakash Goel This 60% utilization is determined more by the off-take that you have or is it plant-specific constraint?

M. N. Rao Plant has been under outage for turbine overhaul, that is why the PLF was around 60% in Odisha during this quarter

Prakash Goel What is the experience in the other plants?

M. N. Rao PLF was above 95%.

Prakash Goel	And you used e-auction coal there?
M. N. Rao	Here we are using e-auction coal, linkage and part of rejects.
Prakash Goel	What will be the proportion of the three, e-auction, linkage and rejects?
M. N. Rao	We are not having the break-up for e-auction, we have used around 40,000 tons of rejects and around 170,000 tons of mine coal and e-auction coal. For particular break-up between linkages and e-auction we can get back to you.
Moderator	As there are no further questions I would now like to hand the floor over to Mr. Prasad for closing comments.
G. R. K. Prasad	Thank you everybody. We would await any follow up questions by mail which our team would be happy to answer.
Moderator	Thank you very much sir. On behalf of Nava Bharat Ventures Limited that concludes this conference.