Nava Bharat Ventures Limited

Q3 & 9 Months' FY 2014 Earnings Conference Call
February 11, 2014

Moderator: Ladies and Gentlemen, good day and welcome to the Q3 and nine months FY14 earnings conference call of Nava Bharat Ventures. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you Sir.

Siddharth Rangnekar: Good Afternoon every one and welcome to the Q3 9M FY2014 Conference Call. Today we are joined by Mr. G.R.K. Prasad – Executive Director; Mr. T. Hari Babu – CFO; and Mr. M N Rao – Vice President, Finance. Mr. Prasad will commence the proceedings with his thoughts on the operating and strategic progress made during the reporting period. This will be followed by a Q & A session where anyone with the query can seek views from the management.

A note of caution, some of the statement made 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. At this stage I would now like to call upon Mr. Prasad to share his thoughts.

G.R.K. Prasad:

Good afternoon everyone. Thank you for joining us on today's discussion. I trust you would have got the opportunity to peruse our Q3 & 9M results and the release.

- On a standalone basis, the Total Income in Q3 of FY14 stood at Rs. 2863 million and the Profit After Tax stood at Rs. 494 million. In 9M period of FY14, Total Income was Rs. 7862 million whereas the Profit After Tax came in at Rs. 1468 million.
- The Power business has shown stable revenues whereas we saw a marginal moderation in volumes in the AP units. The merchant environment in Odisha continues to be tepid and we have seen a corresponding decline in performance.
    - We obtained value addition by way of ferro alloys manufacturing at either location.
    - Ferro Alloys have benefitted from enhanced volumes across exports and domestic geography alike whereas at an overall level pricing has moderated. However there has been a contraction in margins.
    - Pricing benefits were more pronounced in exports.
    - The Ferro Chrome conversion work has seen a jump in volumes QoQ.
- Sugar was impacted by lower realisations and the performance is because of the lower recoveries seen during the initial phase of the crushing season.
- Coming to the performance of our subsidiaries; the 150 MW plant at AP delivered optimal PLF of 86% for the quarter. The merchant volumes from the Unit stood at 253.27 MU, up ~31% QoQ and we expect to maintain the volumes within the same range.

- In Zambia the construction of power plants is completed to the extent of 50% with erection having been commenced. In the YTD period we have seen higher corresponding sales of high-grade coal with better realisations.
- In Tanzania we have completed the JV documents with National Development Corporation of Tanzania and await the allocation of the land to launch the pilot project
- In Laos we have made substantial progress in concluding the concession agreement with the Govt. The next step is to establish a SPV under our Singapore subsidiary upon which we shall proceed with the tie-ups for project finance, PPAs and the actual implementation

With that, I would now like to request the moderator to open the session for Q&As.

Moderator: Ladies and Gentlemen we will now begin the question and answer session. Participants are requested to use handsets while asking a question. The first question is from the line of Mr. Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Thanks for the opportunity. A couple of questions, what is the profitability of the Nava Bharat Energy India Limited, the subsidiary which is operating the 150 MW power plant? The second question is; can you just update us, how much coal you have mined in Zambia and how much you have sold in this particular quarter?

M. N. Rao: Yes, profit before tax of Nava Bharat Energy for the quarter was Rs. 25.37 crore and for nine months period was Rs. 55.42 crore.

Mohit Kumar: What was the coal mined in Zambia?

M. N. Rao: It is around 120,000 tons for the quarter.

Mohit Kumar: How much you sold?

M. N. Rao: It is around 84000 tons during the quarter.

Mohit Kumar: And what are the realizations?

M. N. Rao: Average Realization was at around $49 per tonne.

Mohit Kumar: My last question pertains to financial closure, for our Zambian power plant, is there any update?

G.R.K. Prasad: The financial closure for this project is a two tranche process, one by the Development Finance Institutions led by African Development Bank that is for $250 million, we have concluded the sanction for that. The other is an ECA backed commercial bank tranche which is about $370 million, though overall requirement is $560 million only. There will be allocation amongst the banks and the institutions. The ECA cover goes through two stages, one with Sinosure which is the ECA provider, providing an insurance facility, followed by sanctions by commercial banks. We have got the approval of Sinosure for the insurance facility and the commercial bank sanctions are expected by this month end.

The sanctions will be in place by end of February, following which we would be discussing the common loan documents for loan facilities, which could take probably 2-3 months' time, by when we expect the approval of Ministry of Finance in China for this insurance facility, whereby the financial closure can be achieved. So, All in all I would say the financial closure will now be timed in by end of May or early June.

Mohit Kumar: One more question pertaining to our generation, net generation has come down for last year 3rd quarter. Is there any specific reason that we are not able to sell the power, despite Andhra Pradesh having a large power deficit?

G.R.K. Prasad: Actually, the drop is on account of Odisha and there was some GRID curtailment in the AP as well, but it is more pronounced from Odisha power units. A twin problem, one is lack of open access for quite some time and then followed by low realization, which really did not enthuse us to generate more. And another reason is the cost of generation being a little higher, depending on the mix of linkage coal and e-auction coal, through e-auction and washery rejects. These, actually, made us regulate the generation as well.

Moderator: The next question is from the line of Amit Golecha from Emkay Global. Please go ahead.

Amit Golecha: Two questions, one is on the follow up question related to last question, in case of Zambia, if the financial closure would be achieved somewhere in May, June, would it impact the construction of the plant? How much we have invested till date in terms of equity and debt in Zambia?

G.R.K. Prasad: Yes, it does impact the construction to some extent, but what comes handy is that, the principal EPC contractor has extended supplier's credit and also is helping the Zambian Company to obtain some bridge finance against the project finance, which should ease up for a while. But, I think there could be slight delay in the construction which is targeted with a commissioning schedule of Q4 of FY15.

Amit Golchha: We have been trying for this financial closure since almost 1year and 5months since we started the construction, what has been the main reason, why we are not getting this financial closure, why it is getting delayed? Despite it being a regulated equity project, regulated ROE project, the financial closure actually getting delayed since long.

G.R.K. Prasad: There have been certain changes in currency regulations in Zambia, which resulted or which had an effect of making the power tariffs, which were denominated in US dollars to be re-denominated in the local currency, which actually is not a viable proposition. We took it upon with the Government. By the time the government gave an exemption, it probably consumed a year and 3 months. Though we have sustained project implementation by equity, the financial closure process got delayed because all the financial institutions are awaiting this dispensation from the government, whereby the power tariffs continue to be denominated in US Dollars, which actually is a major mitigating factor in terms of foreign currency exposure.

Amit Golchha: Now that thing is behind us, you are saying?

G.R.K. Prasad: The thing is behind us. In fact the AFDB sanction came through for about $150 million followed by Development Bank of South Africa of $100 million and also the Sinosure insurance cover which usually takes very long in China, came through for about $367 million, subject to The Ministry of Finance approval, which we expect it to be done in about 3 months' time.

Amit Golchha: Can we draw from this $250 million that are already sanctioned now?

G.R.K. Prasad: The loan component is about $560 million, all the loans have to be sanctioned and we have to execute a common loan agreement. Discussions run in parallel for the document negotiations on the financial documents, facility agreements. They are all in the negotiation at this point.

Amit Golchha: Can you give the total investment till date, out of that how much equity and how much is the bridge financing you have done?

G.R.K. Prasad: We have from our side, Nava Bharat Singapore which has put about $148 million in the company including that for initial acquisition, our JV partners put about $50 million, and then we obtained an interim finance from Standard Chartered Bank, at the SPV level which is $35 million, this has gone for the coal and the power project**.**

Amit Golchha: And out of this $148 million, how much is debt and how much is equity?

G.R.K. Prasad: Debt is about $44 million, contracted at the Singapore company level with recourse to the parent company. And balance is from equity.

Amit Golchha: And balance $104 million is equity.

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

Amit Golchha: If you can give the mix of coal which was there in our power generation this quarter and if available for 9 month, in terms of linkage, rejects, imported coal or e-Auction?

G.R.K. Prasad: The coal mix for 114 MW in AP for this quarter is 70% of linkage coal and balance from e-Auction with a little of rejects. For 9 months, it is 55% from linkage, 30% of e-Auction and the balance of rejects.

The coal mix for 94 MW of Odhisha, 90% of the fuel was against linkage and the balance from rejects. We run 20 MW plant at Dharmavaram predominantly on imported coal.

Amit Golchha: Alright. If you have the cost of generation for these plants?

M. N. Rao: We are not sharing the cost of generation.

Moderator: The next question is from the line of Amit Golcha from Emkay Global. Please go ahead.

Amit Golchha: Basically how much cash we would have today on the books?

M. N. Rao: We are having around Rs. 118 crore.

Amit Golchha: That is the standalone cash you are talking about?

M. N. Rao: Yes. Standalone cash.

Amit Golchha: And the consolidated level?

M. N. Rao: Consolidated level also the same.

Amit Golchha: But in case of Nava Bharat Energy we are earning some profit, so that cash would be sitting there or how the transaction?

M. N. Rao: The cash generated at Nava Bharat Energy, is being utilized for building up the stocks and current assets. As of now, we have not availed any working capital facility though it is sanctioned for Nava Bharat Energy.

Amit Golchha: So, you are investing cash into working capital?

M. N. Rao: As of now.

Amit Golchha: We have got into this Odisha plant, 64 MW since almost 2 years and 5 months, this is basically facing issues in terms of either evacuation or low merchant tariff. What is the visibility going forward and do you see any visibility at all, in terms of starting this plant properly and at least servicing the debt out of it?

M. N. Rao: There is no debt for this plant.

Amit Golchha: You have invested all the equity in this plant?

M. N. Rao: Yes, All the equity has been invested. We are still awaiting the power prices to go up. Once the power prices go up, we can commence the commercial operations, as the unit is ready in all aspects.

Amit Golchha: What kind of power tariff will make you viable?

M. N. Rao: It shall be between Rs. 4.80 and Rs. 5 per unit to make it viable.

Amit Golchha: Rs. 4.8-5 basically range is very high according to me looking at the current prices, so let us say, if your marginal cost of fuel would be somewhere about Rs. 3 per unit, then even if you get Rs. 3.5 per unit, you should operate this plant?

M. N. Rao: It has to run predominantly on imported coal, so cost of the coal will be something around Rs. 3.50-3.60, depending upon the prices of imported coal. Even if the prices are above Rs. 3.50, Rs. 3.60 per unit we will be able to run the plant.

Amit Golchha: And there has been some talks of some change in Rejects Allocation policy, so are we impacted by that?

M. N. Rao: No, we are having linkage for mine coal, and not for rejects. We are able to purchase rejects from the nearby washeries. Any such policy will not have effect on us.

Amit Golchha: You are buying it on the market price itself?

M. N. Rao: Yes, we are purchasing from the nearby washeries at market price.

Amit Golchha: And lastly on this Nava Bharat Energy, 150 MW plant, till what time have we already tied up the power from that plant?

M. N. Rao: Power sale has been tied up to May 2014.

Amit Golchha: So just next four months?

M. N. Rao: Yes, just four months and the negotiations are on for the next one year also.

Amit Golchha: Okay with AP only?

M. N. Rao: Yes mostly with AP.

Amit Golchha: And what kind of tariffs you are looking at post May '14?

M. N. Rao: Clarity has not yet come for tariff post May.

Amit Golchha: Because lot of other places have tied up the power in Southern region till almost next year, for next one and half year basically.

M. N. Rao: Next one year, we also will tie up but the clarity in the prices has not yet come. We are still awaiting that.

Amit Golchha: And how do you see the merchant prices going forward in terms of Southern region prices and also rest of India prices? What is your outlook on that?

M. N. Rao: We feel for the next one year it will not be less than Rs. 5.00 per unit in Southern region.

Amit Golchha: And what you are expecting in terms of rest of India?

M. N. Rao: Rest of India it may hover around Rs. 3.50 per unit.

Amit Golchha: So basically you are not expecting this Odisha plant to start looking at these kinds of tariffs?

M. N. Rao: We are trying to convert this environmental license to be operated on indigenous coal instead of imported coal. If we succeed in that we can definitely operate the plant.

Amit Golchha: No, but in case of indigenous coal also you will have to buy in e-Auction market because you do not have linkage?

M. N. Rao: E-Auction market, the coal is available, we can purchase but only impediment is this environmental clearance.

Moderator: Thank you the next question is from the line of Ravinder Vashist from IDFC Mutual Fund. Please go ahead.

Ravinder Vashist: On a consolidated basis, how does PAT number look, we have a Rs. 49 crore PAT for this quarter. On a consolidated basis would the number be better?

M. N. Rao: Consolidated basis it will be better because we have to add Nava Bharat Energy also.

Ravinder Vashist: Which is Rs. 25 crore and what about the losses in Zambia? How much would they be?

M. N. Rao: There may not be any profit in Zambian operations during this year.

Ravinder Vashist: So you are saying on a PBT level it will be a break even there in Zambia?

M. N. Rao: It may not break even. Loss will be less than of previous year 2012-13 due to increased high grade coal sales.

Ravinder Vashist: So on a consolidated basis essentially it will be Rs. 25 crore of Nava Bharat Energy plus Rs. 49 crore.

M. N. Rao: Yes. Rs. 25 crore of Nava Bharat Energy is profit before tax. Rs. 49 crore of Nava Bharat Ventures is profit after tax.

Ravinder Vashist: I am assuming we would be paying MAT in the best case, right?

M. N. Rao: Yes it is MAT.

Ravinder Vashist: And in terms of this Odisha plant, do we have a plan besides this, getting an approval from Environmental Ministry for running it on an indigenous coal? Let us say, if that were not to happen we were in discussions to sell off this asset, any progress there?

M. N. Rao: Selling off is not there, but we are looking into some sort of restructuring.

Ravinder Vashist: Because even though there is no debt servicing which needs to be there but it definitely affects the ROE of the company?

M. N. Rao: Definitely because equity has been invested in that.

Ravinder Vashist: Can you disclose the realizations from various plants that we have had during the quarter from AP plant and Odisha plant?

M. N. Rao: Plant wise details will not be available. The average merchant realisations from 114 MW in AP is Rs. 5.12 per unit and in Odisha for 94 MW is Rs. 2.41 per unit and for 20 MW Dharmavaram plant is Rs. 5.41 per unit.

Ravinder Vashist: But on an average, what would be?

M. N. Rao: On an average this quarter it is Rs. 4.85 per unit for merchant sale for the company as a whole.

Ravinder Vashist: That is the net realization towards is it?

M. N. Rao: Yes. Net realization.

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

Amit Golchha: This Tata Steel contract which we have for ferro chrome, that is till what time and how much power you are consuming for that?

M. N. Rao: It is for 3 years' time, out of that about 2 years have elapsed. We are consuming almost total power generated from 30 MW power plant.

Amit Golchha: And balance Silico Manganese production which you have done in the quarter that has also used the Odisha power?

M. N. Rao: No, Silico Manganese plant is in AP, and uses power from our existing 114 MW units in AP.

Amit Golchha: And how much you use out of that for Silico Manganese?

M. N. Rao: Out of 114 MW, we will be using around 30 MW for producing Silico Manganese.

Amit Golchha: But does it make sense today to produce Silico Manganese instead of power in AP?

M. N. Rao: Yes, it definitely makes, because all of a sudden we cannot be out of the market of Silico Manganese, we have good export market. And one more thing is that captive consumption is also one of the requirements.

Amit Golchha: And, this TISCO contract, what is the visibility of it getting extended beyond 3 years?

M. N. Rao: Still we have 1 year and 4 months' time. We have not yet commenced dialogue for renewal.

Amit Golchha: For 3 years to complete, you only have 4 months' time.

M. N. Rao: No we still have 1 year and 4 months' time.

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

M. N. Rao: Thank you everybody. It has been good interacting with you on the performance of the company. Thank you very much.

Moderator Thank you. On behalf of Nava Bharat Ventures that concludes this conference. Thank you for joining us and you may now disconnect your lines.