



Nava Bharat Ventures Limited

Q3 FY16 Earnings Conference Call Transcript

03.00pm IST on February 15, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Nava Bharat Ventures Limited Q3 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, please signal an operator by pressing '*' and then '0' on your touchtone telephone. 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 and thank you for joining us on the Q3 and 9M FY16 Conference Call of Nava Bharat Ventures Limited Q3FY16. To discuss the company's performance for the quarter and 9M ended period, joining us today 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 commence with key thoughts from Mr. Prasad to be followed by an interactive Q&A Session where you will get an opportunity to get your queries answered.

I would like to caution that some of the statements made or discussed on the call today could be forward-looking in nature and the company and the members of the management do not undertake to update them 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:

- Let me at the outset dwell on the consolidated Operational Income and Net Profit which stood at ₹ 4,043 Million and ₹ 759 Million respectively for Q3 FY16. For nine-months period, consolidated revenue and net profit stood at ₹11,689 Million and ₹1,844 Million
 - Consolidated performance was driven principally by Nava Bharat Energy's 150 MW power plant, our subsidiary and profitable high grade coal operations in Zambia
 - Nava Bharat Energy was benefited by availability of indigenous coal through e-auction as a substitute for imported coal. Medium term outlook on coal appears promising with low price trends which would enable it to contain fuel costs



- Our standalone business reported Total Income of ₹ 2,445 Million and ₹ 6,871 Million respectively in Q3 & 9M FY16 respectively. The Net Profits for the corresponding periods stood at ₹ 213 Million and ₹ 536 Million respectively
- Performance was impacted due to declining trend in Ferro Alloy prices world-wide as a result of price corrections and adverse currency fluctuations in key alloy producing countries like South Africa & Ukraine. This was further affected by pricing pressures in the Sugar business.
- The Conversion arrangement with Tata Steel helped the Odisha Ferro Chrome unit stabilize the operations and operate at its rated capacity
- The Company's second 60 MW power unit in Odisha has received all the requisite approvals and is set to generate and sell power as soon as the merchant power scenario improves.
- While captive power realizations remained steady and were in accordance with consumption at Telangana and Odisha, the Company obtained reasonable rates for merchant power in Telangana and Andhra Pradesh to sustain the overall performance
- Sugar business was marked by severe fluctuations in the prices of sugar. Trends have improved domestically at the end of Q3 and we remain hopeful to tread higher in the ensuing quarter on the back of better sugar & ethanol prices
- Coming to the international operations:
 - Following the financial closure, the schedule of implementation of our 300 MW integrated coal & power project at Zambia is on track and the project is set to be commissioned by July 2016
 - Our subsidiary in Laos is finalizing the schemes for construction contracts and financing under the Concession Agreement for the 150 MW Hydro Power Project
- In Tanzania, identification and allocation of land is still awaited following which investment decisions will be firmed up.

I am very happy to inform you that project financing of Maamba Collieries Ltd in Zambia has been selected as the 'Power Deal of the Year 2015 in Africa by Project Finance International of Thomson Reuters', the leading source of global project finance intelligence. As the Lead Sponsor of the Project, Nava Bharat takes immense pride for this global accolade being unique for any corporate house from India.

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. The first question is from the line of Vinod Malviya of Florine Tree Advisors. Please go ahead.

Vinod Malviya: Sir, I wanted to understand the losses which we have made in the Ferro Alloys business. Again, we have posted EBITDA loss of around ₹(-20) crores in the Ferro business. I remember in the last call you were talking about ₹20 crores is your fixed overheads. Now, in this quarter we also had Tata arrangement which would have at least contributed around ₹15 crores to the gross profit in the Ferro business, that is my calculation says. So can you explain that what went wrong during this quarter and that has led to such a huge loss in the Ferro business?

G.R.K. Prasad: The loss principally arose not on Tata business but on the Manganese Alloy business in Telangana. The conversion arrangement postulates certain transfer price being absorbed by Tata Steel which is probably 10% lower than the price that is adopted based on grid tariff. So to that extent, there is a small under recovery in terms of Ferro chrome. Otherwise, the Ferro Chrome operations in Odisha have improved over that when conversion was not there. Whatever you see as in EBITDA loss here has emanated from Manganese Alloy operations in Telangana where minimum production has to be continued because of transmission constraints and operating constraints.



Vinod Malviya: What would be the loss quantum coming from the Manganese Alloy?

G.R.K. Prasad: I cannot give a breakup but you could say majority of the loss pertains to Manganese Alloys.

Vinod Malviya: So going forward, what would be the condition like that, again, you would be repeating similar kind of a loss or?

G.R.K. Prasad: I am afraid, Manganese Alloy scenario does not look promising, but we are regulating the production to the extent that is necessary to see that the power plant and the Ferro Alloy plant work in tandem, without losing any kind of productivity. But, that being said, it all depends on how the steel industry performs over the next one year or so given that the government has taken certain steps to improve steel offtakes and all.

Vinod Malviya: So like was that a loss in the gross profit itself in the Manganese Alloy business this time?

G.R.K. Prasad: We adopt a transfer price for transferring the power from power plant to Ferro Alloys unit. The transfer price in A.P. was at ₹4.88 whereas if you actually reckon the actual realization that could probably have fallen a bit short.

Vinod Malviya: The second thing, wanted to understand is on the settlement which you have done with the UK company. So you have provided some cash discount of \$2 million. This exceptional item would be coming in the March quarter, right?

G.R.K. Prasad: No, it was reported in this quarter itself. The Auditors held a view that, it could be reduced from the sales figure. So it was reduced accordingly and was disclosed as such.

Vinod Malviya: So the cash flow from the sales which you have reported has also been received?

G.R.K. Prasad: It was pertaining to earlier period but the discount happened in current year. The cash flow for the sales except discount, we had already received during the previous year and 1st quarter of the current year.

Vinod Malviya: The last question is on the Odisha. Even after having the arrangement of Tata, 60MW plus 34MW, 94 MW is still operating at 45% PLF only. So is there any scope for improvement in the PLF whether the grid prices have improved and you want to sell more in the grid going forward?

G.R.K. Prasad: Yes, to the extent that we do not breach the captive consumption norm which is 51% on an annual basis. So far the situation was a bit difficult because the merchant power rates also were not very remunerative to induce us to generate higher. So to that extent the generational loss was there. So we were predominantly consuming captively while whatever we could sell at a reasonable price over the cost of generation was only being sold. We expect the merchant power rates to probably have an uptick in the coming months. Hope they may. But, once that happens not only the 90 MW can see a slightly improved performance but we could probably see the 60 MW which otherwise has been stranded for a long time being put into operation.

Vinod Malviya: We are looking for some strategic investor for that 60 MW. So any update on that front?



G.R.K. Prasad: That continues. At the moment, no.

Moderator: Thank you. The next question is from the line of Mohit Kumar of IDFC Securities. Please go ahead.

Mohit Kumar: A couple of questions; the first sir, the discount which you gave to the Ronly UK company, has it affected our profit in this quarter?

M.N Rao: Yes, this has been adjusted from the sale. As such the effect has already come in this quarter itself.

Mohit Kumar: Is it the reason that we have showed in EBIT loss of ₹22 crores in this quarter for Ferro Alloys operation?

G.R.K. Prasad: Out of ₹22 crores, you can say ₹13 crores is on account of the discount.

Mohit Kumar: My second question pertains to Zambia sir. Can you just quantify how far the construction is complete in percentage terms and when the unit-1, unit-2 will be commissioned?

G.R.K. Prasad: In all facets of the implementation, 90% stands completed. We expect the commissioning of units in a phased manner; the first unit going on stream by end of June and followed by second unit by end of July 2016

Mohit Kumar: Have you renewed our PPA for our power plants in A.P. for next year? PPAs are getting over by June 2016.

G.R.K. Prasad: It is actually closing in May and Telangana grid had called for an offer, we did submit our offers, now the process of tender finalization is on, we expect that to be concluded in the next one month or so.

Mohit Kumar: What was this profit at our Zambian operations, can quantify in terms of USD million for the nine months?

G.R.K. Prasad: \$ 1.9 million is the net profit.

Mohit Kumar: This is our share, right?

G.R.K. Prasad: No, that is at the company level.

Mohit Kumar: How much debt we have drawn till date on this Zambian operation?

M.N Rao: As on 31st December, we have drawn \$ 370 million debt.

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

Ravi Purohit: Just one or two clarifications; this ₹(-13) crores loss as in this cash discount that we provided to this UK company on Silico Manganese, the right way of looking at this would be we reported ₹22 crores EBIT loss in this quarter, ₹13 crores of that was because of this, really speaking it would have been ₹(-9) crores loss in this quarter had this adjusted not been there?



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

Ravi Purohit: Secondly, on the 60 MW Odisha Power Plant, I think there were some mention in the last couple of concalls that there are talks with Odisha Grid itself that they might be interested in taking up the entire quantity. Any headway on that?

G.R.K. Prasad: No, actually that is still on, but Odisha Grid has not made up its mind, I believe they have not got the clearance to buy.

Ravi Purohit: But from our point of view given that coal prices have declined further in the last three-four months, what would be reasonably good price for us to kind of feel comfortable and at least kind of get our fixed cost back, what would that rough pricing there could be like?

G.R.K. Prasad: At this point, Ravi, I would put it at 3.

Ravi Purohit: On this Zambian operation, do you think commercial operation will begin from June and July Phase-1 and Phase-2, trial would probably start much earlier?

G.R.K. Prasad: Probably a month ahead in each case.

Ravi Purohit: I think we had mentioned in the earlier concalls that post the financial closure once the money comes in from the financial institutions, the loans and advances given from NBVL to Mamba Collieries will come back. Has it come back or what is the status there?

G.R.K. Prasad: It is not from NBVL, it is from NBS, that is our Singapore subsidiary. There are two transactions which got unfolded – one is standby LC which was given by Nava Bharat Singapore for \$14 million which got unfolded as part of this accession of the additional lenders and about \$5 million was repaid. So we still have to get about \$40 million.

Ravi Purohit: But at least \$15-20 million that deleveraging of Singapore subsidiary will also happen simultaneously?

G.R.K. Prasad: Yes, I want my colleague, Mr. P.J.V Sarma to answer that on the accession of the additional lenders, one more lender which is in advanced stage.

P.J.V. Sarma: If you recall, NBS advanced an amount of about USD 40.00 million as special bridge loan to MCL. This amount will be paid back by MCL upon accession of additional senior lenders. Out of this recently, we have closed Barclay Zambia as one of the senior lender. With this, the \$14 million LC got extinguished and another \$5 million got back. We have finalized arrangements with another lender. I do not want to name it, because the reason is they are on the final stage of execution, so maybe in about a couple of weeks we are going to close the execution of these documents. Once that is concluded, so maybe in about three to four weeks, you can expect that money to be reimbursed or back to Nava Bharat Singapore..

Ravi Purohit: So ex-Mamba Collieries just including Nava Bharat Singapore, Nava Bharat Ventures Limited and Nava Bharat Energy Limited, all put together how much would our gross and net debt be as of now, you are putting it as an SPV for example?



M.N Rao: Except Mamba, it is something around 16.67 million for Nava Bharat Singapore, Nava Bharat Energy is having something around ₹279 crores, Nava Bharat Ventures has ₹337 crores debt. These are only the debts that we are having except Mamba.

Ravi Purohit: So all put together we will have still about ₹600-700 crores of debt?

M.N Rao: Yes, you are correct.

Ravi Purohit: Nava Bharat Energy's debt would have reduced further because each quarter whatever cash flow we are generating...?

M.N Rao: Yes, each quarter we are paying it, it is ₹279 crores as of now, while we had drawn ₹435 crores.

Moderator: Thank you. The next question is from the line of Srinath V of Bellweather Capital. Please go ahead.

Srinath V: Sir, just now you made a mention that debt stands at about ₹600 crores for the non-African operations. Our cash flows remain very strong at about more than ₹300 crores a year. So do we have plans of aggressively stepping up dividends or doing buybacks given that we have not mentioned any large CAPEX in our annual reports?

G.R.K. Prasad: It is a bit dynamic. We are expecting cash flows to be on the order for the coming year. I think Board is seized of that. We would come back to you appropriately as to how we intend to use the cash flows.

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

Ravi Purohit: If you could just brief us about the power situation in Zambia and how this power plants of ours kind of plays a role there? I think we had PPA signed earlier. I think recently we saw notification by Tata Power that their hydro power has also got commissioned and their PPA is about 9 cents per unit or something of that sort. So, that is if you could just briefly touch up on that market and how our project stands there?

G.R.K. Prasad: It is actually good that Zambia probably is having acute power deficit in power at this point of time when we are about to commission the plant. So we expect that deficit to be partly met by this power being commissioned. Today, they are looking at a deficit of close to about 800 MW and after that hydel power plant which you are talking about. So we expect that demand gap to be available over a foreseeable future whereby the offtake and payments are expected to sustain very decently.

Ravi Purohit: Given how stress the African economies are, but you do not foresee any problems on payments or any of those things, right?

G.R.K. Prasad: There is a payment security mechanism which is in-built into this PPA which is more offshore driven kind of an escrow directly from the offtakers of the local utility there. So we do not expect that being a problem.



Ravi Purohit: Coming back to Indian operations and this Telangana grid has come out with bids as you mentioned earlier in the call. Anything that you can indicate what kind of prevailing rates are going on and what kind of rates can one expect given that a lot of solar companies are now bidding at 4.6 and 4.8 although there are question marks around the aggressive bids that are being put, but just your perspective on that?

G.R.K. Prasad: We cannot share the details, Ravi, because this is a tender process, but it would suffice to say that solar is not in the scheme of things for this tender, they are looking at only round the clock power sale from base load power stations like coal fired power stations within the state at this point.

Moderator: Thank you. The next question is a follow up from the line of Vinod Malviya from Florine Tree Advisors. Please go ahead.

Vinod Malviya: Looking at the liquidity in your stock for a company of your size, obviously it is extremely illiquid even take into account what is the free float and so on. I am sure you will agree that it benefits all of us existing shareholders as well as the company going forward if you are able to create a more active interest in the stock. What is the management doing about it? It is one thing to say passively that we are doing well in terms of operations, but I think the management needs to take a little bit more effort in terms of getting its stock market profile up as well?

G.R.K. Prasad: I could not agree more, Vinod. But basically, I think we are trying to find out through our advisors and see how this dissemination can take place and better liquidity happens and that effort is on. Probably I would say we have been waiting for significant milestone in terms of Zambian Project which is what we have overcome which is the financial closure and next big milestone obviously is the commercial operations. So, we expect to leverage upon these two and see how to better this liquidity issue.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, sir.

G.R.K. Prasad: Thank you very much for your insightful questions. Please revert to us in case any outstanding issues or clarifications remain.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Nava Bharat Ventures Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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For NAVA BHARAT VENTURES LIMITED


 Executive Director
