

Q1 FY2012 Investors/Analysts Conference Call Transcript August 02, 2011

Siddharth Rangnekar: Good afternoon everyone and thank you for joining us on Nava Bharat Ventures Limited's Q1 FY 2012 conference call.

We have on the call today Mr. G.R.K. Prasad, Executive Director, Mr. P.J.V. Sharma, Director and Mr. M.N. Rao, General Manager Finance. We will have Mr. G.R.K. Prasad making the opening remarks following which we shall have the interactive Q&A session.

I would now like to call Mr. Prasad to share his views.

G.R.K. Prasad: Thank you Siddharth. Good afternoon everyone and welcome to the Nava Bharat Ventures Q1 results conference call.

I trust, you must have by now had the chance to go through our quarter results. The Company has furnished detailed operational data through the press release and as part of the normal disclosure, which I'm sure all of you might have perused.

I will first share with you the key updates on our international ventures after which I will apprise you for segments in the domestic business.

International business mainly starts with Zambia; our plans for Zambia are firmly under way. I'm glad to share that on 8th July we did the Ground-breaking Ceremony of the coal project, which was graced by His Excellency, the President of Zambia.

Coal mine work has commenced with removal of soft overburden and compacting of the dumps of the thermal grade coal, which were existing in the coalmine and the high grade coal extraction is expected to commence probably from November 2011, immediately after the expected commissioning of the new Coal Handling and Processing Plant by the South African supplier is commissioned.

We expect to have, most of the key project documents for the power project in place in due course, that is in a month's time and we expect to make a decision on the selection of EPC contractor also in a couple of months. We are aiming to launch this project within this financial year itself with a zero date probably commencing in the last quarter of this financial year.

We are progressing well with regard to the Hydel Power project in Laos. This project is supported by completely validated study on hydrology and geological assessment. Just to share, our initial assessment, suggests that this project will have a hydro potential of about 100 MW and that too going with a fairly decent scale of PLF exceeding 60%.

The Singapore subsidiary has since engaged in dialogue with a new set of buyers for the Indonesian coal concession, which is a new development. It is hopeful of obtaining the money invested so far on the concession, as also obtaining an off-take arrangement for about a million tonnes of coal per annum from this concession, while continuing with an economic interest of 20%.

Another development which is in the offing relates to the step down subsidiary in Mauritius, Nava Bharat Africa Resources, which is pursuing certain Agri based investment initiatives in Africa. These initiatives are being pursued, leveraging upon the Company's experience in sugar over the last few decades. We believe, Agriculture and Agri based industries hold a bright potential going forward. However, we must know that these initiatives are to be validated through a detailed feasibility studies and then only we can firm up and share our investment plans in this space.

Coming back to the main businesses – the power business, as you all know is going through a churning. We expect the power business will continue to be impacted by subdued merchant power realizations and relatively higher fuel costs in the near term. The Discoms have started certain fiscal measures, through recovery of higher costs of power purchase and unabsorbed fuel costs, by way of fuel costs adjustment, which seems to be a precursor for a tariff rationalization, if and when they are permitted to do so by the state governments.

Nava Bharatwill have accretion of volumes in the power business during the current year from its new Odisha Power Unit during the second-half of the financial year, which, we hope to some extent, would neutralize the fall in the merchant power rates. Flexibility in usage of blend of linkage coal, coal through e-auction and washery rejects should help our company maintain the overall cost of generation to be below Rs 2.50 per unit, providing adequate cushion for the 208 MW capacity, though 20 MW unit at Dharmavaram in AP remains vulnerable to the fuel cost and the low realizations, given that it is dependent on the imported fuel.

The Ferro Alloy business seems to be on a relatively better frame at this point of time. Manganese alloys continue to drive performance with the company, producing manganese alloys in three furnaces in AP plants, effectively turning out about 7,000 tonnes a month. The prices of manganese alloys though remain static, would yield comfortable margins because of reduction in the ore prices.

The other development which is keenly awaited is the conversion arrangement for Tata Steel for Ferro Chrome in the Odisha plant. But, this is awaiting certain administrative clearances and we should commence the conversion sometime early next month.

The sugar business, I would say, is a little less subdued because of the expected fall in the available cane. However, the likely shortage of sugar worldwide is expected to provide better market for sugar in the current year.

I would now like to request the moderator to open the session for question and answers.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda: Could you please share us the quantity numbers for Ferro Alloy in this quarter?

G.R.K. Prasad: The Silico Manganese production for the quarter was 15,598 tonnes and Ferro Chrome production was 1,974 tonnes, while the sales for Silico Manganese was 15,666 tonnes and there was no sale of Ferro Chrome.

Sanjeev Panda: As you just mentioned sometime before, the Ferro Alloy plant in Odisha is expected to come about, could you please throw some more light on that, how much of production we can expect from that once that development will happen and what is the timeframe that we can consider?

G.R.K. Prasad: We expect the conversion arrangement to commence conservatively from September 2011 onwards because the ore momentum has to take place, otherwise the furnaces are ready. We expect from September to March the production to be about 25,000 tonnes.

Sanjeev Panda: per month?

G.R.K. Prasad: No this is not per month; this is up to March 2012 under conversion.

Sanjeev Panda: What is the timeframe in which we can expect this?

G.R.K. Prasad: It is up to March 2012. The conversion arrangement postulates that two furnaces would be dedicated to Tata, roughly about 50,000 tonnes would be converted in a year.

Sanjeev Panda: And this conversion arrangement, would be like a fixed kind of a thing or?

G.R.K. Prasad: It is fixed. Except the power tariff which would be escalated depending on how the state tariff moves up.

Sanjeev Panda: So will that power tariff be in ratio to what you are transferring from your power division or it will be in line with what the market will be trading at?

G.R.K. Prasad: It is not the tariff at which trading at; it is the tariff which is relevant for the Ferro Alloys units in Odisha.

Sanjeev Panda: Presently is there any difference between these two, what you are transferring and what the tariff currently available there.

G.R.K. Prasad: Currently no, it's about Rs 3.90 per unit, that's where we are transferring the power to ferroalloys.

Sanjeev Panda: And so to give an outlook on the coal mining that has started and commencing in Zambia, what is the next monitorable thing that we can expect or what is your next action plan there, what we can follow in the next couple of months?

G.R.K. Prasad: The coal mine project in Zambia has two phases, one relates to the revival of the coal mine, the other is establishing the 300 MW power plant. The revival of the coal mine has commenced as I told you just now. We have started removing the soft overburden within the mine area and this mine has, as you know two grades of coal, the thermal grade coal in upper-seams and the high grade coal in lower-seams. The first task before the company is to preserve the thermal grade coal ahead of the establishment of the power plant. So all the dumps of the thermal grade coal, which were lying there in the coal mine are being compacted, so that they don't burn out, that's the first task and second task relates to preparation of benches for the extraction high grade coal which is already commenced and we expect these things to go on till sometime in September, that is when the extraction of high grade coal would commence. We expect the new Coal Handling and Processing Plant to be erected by then and commissioned. Once the CHPP is commissioned, then we can actually bring the high grade coal so extracted through the Coal Handling and Processing Plant and make the washed-coal available for sale. So this sale of washed coal in all likelihood would commence from November 2011.

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

Amit Golcha: A few book keeping questions, one why the PLF was lower in this quarter?

GRK Prasad: The 64 MW power plant in Odisha went through a turbine overhaul which is required to be done once in about three years' time, that lasted for about 45 days; that has accounted for the lower PLF.

Amit Golcha: It's nothing to do with demand?

GRK Prasad: No.

Amit Golcha: How much was the sale to Odisha GRIDCO, this quarter?

G.R.K. Prasad: This quarter the volume was about 15 million units.

Amit Golcha: Only 15 million units?

G.R.K. Prasad: Yes.

Amit Golcha: So last quarter we had sold something like 106 million to GRIDCO?

G.R.K. Prasad: It is not only to GRIDCO. It is to GRIDCO and AP Transco. Last quarter, we sold to AP Transco also. This GRIDCO sale is regulated by about 20 MW's, on a yearly sale it is about 140 million units.

Amit Golcha: And for the quarter how much it was?

MN Rao: 15.33 million units is the actual sale to GRIDCO.

Amit Golcha: Sir what I get now is the merchant realizations about 4.33 per unit, excluding GRIDCO am I right in calculating that?

G.R.K. Prasad: Rs. 4.33 per unit. Yes.

Amit Golcha: In the quarter, the MAT credit was actually lower than what I had expected because at the end of quarter we had a credit of about Rs.150 crore is left, out of that we have taken only Rs. 6.5 crore in this quarter. So what was the reason that we took lower credit this quarter?

G.R.K. Prasad: MAT credit entitlement is related to the 50 MW unit which has come out of the tax holiday now. To that extent we may have had higher tax in the year.

Amit Golcha: So you expect this kind of MAT credit to continue going forward also?

G.R.K. Prasad: I would expect roughly about 10% being the rate this year.

Amit Golcha: Coming back to power, on captive power this quarter we had the transfer rate of about Rs 2.87 per unit, last quarter it was Rs 3.5 per unit. So what actually determines this rate and going forward the deal with Tata Steel would be there, so would the old captive power be transferred at a particular rate or there will be separate deal billing for Tata Steel captive power and the other captive power?

G.R.K. Prasad: Our concept to determine the transfer rates is taken from market rates. so whatever captive consumption that happens in the AP unit, for instance, will follow the grid rate for ferroalloys in AP and as far as Tata Steel conversion is concerned, the arrangement is that the transfer price which we have been following being the grid-rate, So, the same arrangement will follow with conversion also. as and when the grid-rate moves up, the conversion rate also moves up.

Amit Golcha: So Tata Steel may follow Odisha grid-rate?

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

Amit Golcha: The cost of generation also was higher this quarter, what I understand this was about Rs 2.49 per unit taking at the net generation volumes, which was about Rs.2.36 per unit last quarter and Rs.2.08 per unit the quarter before that. So basically the cost of generation is increasing, are we buying more e-auction coal or imported coal in the mix?

G.R.K. Prasad: There was a time when e-auction coal prices have sharply moved up, as we were talking about a scenario where e-auction continues to be at about 20% and the balance will be the linkage coal. This is the scenario in Paloncha and as far as Odisha is concerned, it follows in a fashion of 40% through linkage, e-auction 30% and 30% washery rejects.

Amit Golcha: Was there any impact of the coal price hike by Coal India in case of MCL also in case of industries other than power, so are we categorized into industries other than power because we are categorized as a captive power consumer.

G.R.K. Prasad: That happened last year itself.

Amit Golcha: It was only for one month last year because the price hike happened on February 28.

G.R.K. Prasad: It got affected from 1st of March.

Amit Golcha: So one-month impact we had last quarter.

G.R.K. Prasad: It is there for 3 months in Odisha for this quarter.

Amit Golcha: Could you just explain in a bit detail about the Tata Steel deal, the captive power transfer I understood but what exactly would-be the selling price of ferrochrome and how the whole deal will work out and how much captive power we will require for producing this mix quantity?

G.R.K. Prasad: We can't possibly share the Conversion details because they are under confidentiality but as you know Ferro Chrome consumes about 4,000 units of power that continues in Tata Conversion as well.

Moderator: Thank you. The next question is from the line of Dheeraj Devata from ICICI Prudential Asset Management. Please go ahead.

Dheeraj Devata: I needed some more sense on the 64 MW unit at Odisha, I gather that the blanket ban which is in the specific district was uplifted but it is still being delayed, it was supposed to be coming up by July. So can you throw some light on that scenario?

G.R.K. Prasad: For the 64 MW unit is in Odisha, the high-emission zone moratorium was applicable till March 2011. After March 2011 the Environmental Ministry started clearing the applications one by one. We expect to have the clearance very soon and then the unit will go on stream.

Dheeraj Devata: But this deal can be reasonably expected by what time, by September or sometime?

G.R.K. Prasad: We expect September but it will be safe to assume the commercial operations to commence from Q3 that is from October onwards.

Dheeraj Devata: From October onwards it should be flowing in our revenue lines and any details on the sale that which is happening soon, any bifurcation between captive and merchant over here. Are we under any agreement to sell a certain percentage to GRIDCO?

G.R.K. Prasad: This 64MW as well as the old 64MW have been classified as independent power units now. So under Odisha regime, the independent power units are supposed to makeover 12% of the generation at, at variable cost as determined by OERC.

Dheeraj Devata: And the rest of it, we will be doing in a merchant?

G.R.K. Prasad: Rest, we will be selling on merchant basis.

Dheeraj Devata: Any updates on the PPA front, you said the PPA Zambia would be signed or is it already signed?

G.R.K. Prasad: It's not signed, it is going through the regulatory framework. We expect to have the PPA behind us in a month's time.

Dheeraj Devata: Just off-track again, the cost of generation of this new 64 MW unit would be under Rs.2.2 per unit itself or would it be a bit higher?

G.R.K. Prasad: We expect the cost of generation to be about Rs.2.5 per unit only.

Dheeraj Devata: Even for the new unit?

G.R.K. Prasad: Yes.

Dheeraj Devata: So this would be sourcing a higher percentage of our e-auction as you said?

G.R.K. Prasad: It would be a combination on e-auction and washery rejects. The only factor that could change this price is e-auction price and there is a possibility of blending the imported coal as well 80:20, but at this point of time, we are planning to have a blend of e-auction and washery rejects only.

Dheeraj Devata: And any update from the 150 MW unit front?

G.R.K. Prasad: 150 MW unit is under construction, its on track, to be commissioned in Q4 of FY13.

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

Mohit Kumar: Is it possible to give the breakup of the linkage coal and the e-auction coal, the quantity and the prices for the quarter?

G.R.K. Prasad: I would suggest you take it separately.

Mohit Kumar: What is the capital expenditure, your plan for FY12, FY13?

MN Rao: For the balance of the year we anticipate to spend around Rs. 50 crore further for our 150 MW AP plant which is coming up in our subsidiary. Other than that we don't have to incur any further capital expenditure. **Mohit Kumar:** Last question, have you tied up with the merchant for a short term PPA for this quarter and what are the rates you are looking in the market?

MN Rao: This quarter, we have almost tied up for the sale of power. The rate is something around Rs 3.50 per unit on gross level.

Mohit Kumar: Does this include transferring charges?

MN Rao: This Rs 3.50 on gross level and on net basis around Rs 3.40 **Moderator:** Thank you. The next question is from the line of Vineet Maloo from Birla Sun Life Asset Management. Please go ahead.

Vineet Maloo: On this Odisha CPP, where we have taken this turbine overhaul, we would have incurred some repairs expenses or something like that, a one-time expenditure there?

MN Rao: That is nominal and is around Rs.3 crore.

Vineet Maloo: Okay nothing significant.

MN Rao: This is a turbine overhaul which is taken once in three years and it lasted for almost 45 days during this quarter. The expenditure we have incurred is something around Rs. 3 crore, it is of negligible impact.

Vineet Maloo: The decline sales volume of power is mainly on account of this only, there is nothing else?

MN Rao: Yes.

Vineet Maloo: And our cost has gone up this quarter, you explained that the coal cost in the sector has gone up but coal cost if you just give in a blended number how much would have increased by as compared to Q4 into Q1?

MN Rao: The blended number of coal cost for our Paloncha unit it is around Rs 1.46 per unit, for Odisha it is Rs 1.47 per unit.

Vineet Maloo: Our total cost is still coming to Rs 2.50 cash cost?

MN Rao: Yes something around Rs 2.48 per unit.

Vineet Maloo: On cash basis right?

MN Rao: Total cost.

Vineet Maloo: So it includes the depreciation. On cash basis how much would it be?

MN Rao: Cash basis it will be around Rs 2.38 per unit, 10 paise less because our depreciation is less.

Vineet Maloo: So we have a non-fuel-operating expenditure of roughly 90 paise, is it?

MN Rao: Yes you are correct.

Vineet Maloo: This coal that you said you will start producing in Zambia next month onwards, so will we see revenues also flowing in this quarter or is it just the initial preparation of the mine?

PJV Sarma: As we have mentioned earlier, coal handling processing plant is going to be installed, may be by this October. What we mean by coal handling plant is the washery. The washery will start operation maybe around October-November. The current finance year you will have about four months sale of high grade coal. This is sold to some of the cement units and other units in Zambia.

Vineet Maloo: So this will have some sale in December and...

PJV Sarma: Some in December and one quarter, may be around four months exactly.

Vineet Maloo: And lastly in the CapEx you have given a figure of 64 MW and Rs. 233 crore you spent. So overall CapEx for the company, how much do you plan to spend in FY12 and FY13?

PJV Sarma: We have already mentioned about the expenditure required for the Indian projects, 150 MW then likely there will be some infusion of the capital thru Nava Bharat Singapore for the Maamba Collieries, i.e., our Zambian project. Other than that there has not been any expenditure. May be we end up with \$30-40 million to pump in before 31st March 2012. May be \$50 million max before March for Maamba Collieries.

Vineet Maloo: Okay and at Laos?

PJV Sarma: Laos, there will not be significant expenditure in the current year, as we mentioned, right now a detailed feasibility study is being done. At the end of which we will be zeroing the actual capacity of the plant and the capital cost. Once that is firmed up only the things will happen and then the construction agreement will have to be signed. We do not expect to incur any large CapEx as such, except for some compensation field studies, before the end of the current financial year.

Vineet Maloo: And how much would be the total debt right now at consolidated levels and cash in hand?

MN Rao: It is Rs.124 crore on a stand-alone basis, excluding the FCCBs of around Rs.140 crore.

Vineet Maloo: Okay and consolidated?

MN Rao: Consolidated debt, it is something around Rs.270 crore more of which is on our Singapore books.

Vineet Maloo: This 150 MW plant that is coming in a separate subsidiary, right? So there also you would have some more debt?

MN Rao: No, we have not yet drawn any debt for the 150 MW project.

Vineet Maloo: How much cash are we having at stand-alone and at consolidated levels?

MN Rao: Stand-alone, we have around Rs. 500 crore and consolidated level, it is around Rs. 670 crore.

Vineet Maloo: For the FCCB what exactly is the status, you had given a notice for conversion now how you are going to progress? Still showing is pending, right?

PJV Sarma: Yes, notice for conversion has been given and there are some statutory formalities that have to be completed. We hope that it should be completed by the end of August or early September. So the conversion will happen by 31st August it will be getting over. So may be early September the conversion actually will take place.

Vineet Maloo: So by this quarter end basically it will all be equity.

PJV Sarma: By September end if we look at the half year, yes it will be.

Vineet Maloo: You mentioned that you have tied up this quarter, power at Rs.3.40 per unit on a net basis. and have you sold any power beyond this quarter? And what are the rates looking like going into December quarter or something like that?

MN Rao: Beyond this quarter, we have not yet effected any sales.

Vineet Maloo: Any indication of how our power rates are moving after monsoon?

MN Rao: May be at the same level. **Vineet Maloo:** You would not expect any improvements after monsoon is over?

MN Rao: As of now, not expecting any improvement.

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

Ravinder Vashist: One is in the earnings release there is a statement and I quote that the domestic market is said to be surplus and power over the next couple of years given the targeted completion dates of several ultra-mega and large size summer plants. Sir, I just wanted to understand from you how do you think the market is going to go forward in terms of new assets coming up? How is it going to be for Nava Bharat going forward? Secondly, if you could throw some more light on the agri business opportunity that you just mentioned about?

G.R.K. Prasad: I think power, we all hold the same view as I see it, because of the incremental generation that is coming on.. But what is happening which is note worthy, I would say, is the distribution companies' ability to pay for power beyond a certain rate .So I think that will be the major factor which would be influencing the merchant power realization going forward. This is again is determined by how much of the higher cost they are able to recover through the tariff program. These two are being corrected in a small and steady way by all the distribution companies. We expect the phenomena to usher in some kind of stability in merchant power rates. Given as that, may be, we expect the merchant power rates to hover around Rs. 3.5 per unit to Rs.4 per unit.. It won't be falling below Rs.3.50 per unit but it will not be going beyond Rs.4 per unit as well.

Ravinder Vashist: This is on a gross basis of Rs.3.50 to Rs.4 per unit what we are talking about?

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

Ravinder Vashist: Wanted to understand on the power side, you are considering that all these ultra-mega power projects and most of the large size thermal power plants also. They have some kind of a long-term PPA, so there is an obligation with the SEB to buy power from them. So, how do you see the situation

panning out? So would there be a need or a requirement for merchant power plants not just for the peak power plant but also on a daily load basis or steady state load basis. Would there be a requirement for merchant power plants?

G.R.K. Prasad: I think merchant power should be gauged in the sense that, it constitutes a small percentage of the overall power pool. Aside from case one bids or the long term power purchase merchant power will have a place in this power market because of the sporadic spurts in demand and normal tendency to keep a reserve for power purchase by all the distribution companies. But again one point which needs to be noted is that most of the companies which struck long term power purchase agreements, three to four year ago for starting supplies from 2011-2012, we find from reports, are not in a position to supply at the given rates for various reasons, principally because of the escalation in fuel costs.

If you recall we have always been holding that the power markets will have a cost push effect going forward because of the higher fuel cost, especially the incremental generation being determined based on imported fuel. So while long term power agreements will be around, we hold a different view as to the delivery of that power to the distribution companies in reality. I actually feel that merchant power will sustain in the power market.

Ravinder Vashist: Does the company intend to get into any long-term tie-ups going forward because if there is a situation where merchant power plants are relevant only for peak load and for base load may not be so relevant. So, does the company have some plans going forward to get into long-term PPA's?

G.R.K. Prasad: Yes, we are actually looking at some opportunities, not very long-term, though 20, 25 years power purchase bids are coming intermittently. We are looking at medium term bids.

Ravinder Vashist: Also the agri business opportunity, if you could just throw some more light as to what is the area of focus there? I know it is too early to talk about it, as it is in the preliminary stage. But which part of the agri business are you focusing? Which crop or something like that?

G.R.K. Prasad: Perhaps as you put it; it is in a nascent stage. But what is more relevant is, agri business as such is going to be a very sought after business going forward. That is our considered view. Mainly because the land is becoming scarce in most parts of the world and that is where we feel lot of efforts will go in. Then we need to look at large tracks of land to really have economies of scale. For that reason, we are looking at Africa as providing these kinds of opportunities. At this point of time, it is a bit early to talk about what kind of crops, we will be pursuing but as you all know we have this sugar business for the last three decades. That experience should keep us in good stead in exploring these agri based initiatives. To start with, we will look at sugar and also other commercial crops.

Ravinder Vashist: Any particular country that we have in mind, sir?

G.R.K. Prasad: Nothing in particular though Eastern African countries seem to hold promise.

Ravinder Vashist: Just one more question on the Odisha 64MW, the new 64 MW plant. Considering that we are saying only in Q3 this plant will be operational, I am assuming that we have not really entered into any PPAs, even a short-term PPA for this plant till now. Is that right?

G.R.K. Prasad: In fact we have not entered into any short-term PPA. For the particular reason that this has been getting deferred. We do not want get stuck with a contract without the plant being commissioned.

Moderator: Thank you. The next question is from the line of Shankar K from Edelweiss. Please go ahead.

Shankar. K: Zambia, how much is the output that you are expecting in this year? Now considering that you are going to commence operations only in December?

G.R.K. Prasad: Initially the run will be about 30 to 40,000 tonnes a month, washed coal, that should translate to something like 200,000 tonnes this year.

Shankar. K: Okay and next year, 50,000 per month, by April you will be able to ramp it?

G.R.K. Prasad: Yes, 50,000 tonnes per month from April onwards and that makes 600,000 tonnes next year. Following year the target is 1 million tonnes.

Shankar. K: Now secondly in the opening remarks of yours, you mentioned something about some 20% stake in some coal mine. Can you just throw some light because I just missed it?

G.R.K. Prasad: This is pertaining to the Indonesian coal mine which we were pursuing and we had to hold off for a while because of the litigation that had sprung up. We have found a new set of buyers who are willing to take the coal concession forward with a majority stake. What we did was to enter into an agreement with them to sell 80% of our economic interest to them. In return, we get an off take agreement for about a million tons of coal per annum. This off take will be guided by the Indonesian coal price index and the second part is, we get back whatever money that we had put in earlier in the coal concession.

Shankar. K: That's \$4 million.

G.R.K. Prasad: It actually translates to about \$6 million by now.

Shankar. K: So that's the entire. The deal is two parts, one is that you get your money back whatever you have done so far and secondly you get 1 million tonnes of coal without putting actually any money but based on Indonesian coal price .so based on that you will put a power project out here.

G.R.K. Prasad: That's right. It should essentially create a cushion for our fuel blend, not the cost as such.

Shankar. K: So that is typically sir to enter into a long-term coal contract with any of the Indonesian coal supplier. How different would this deal be with that deal excluding the first part, where you get you \$6 million back? If you strip that off it is as good as any other deal with any other supplier?

G.R.K. Prasad: Excepting that for a part of the offtake, we have fixed range of prices. So for the balance, let's say, 50% of the off-stake, will be determined based on a fixed range of prices. We have a cap on how much price we would pay for 50% of the off-take and balance 50% is on the market price.

Shankar. K: But that's exactly what Indonesian coal policy is. Basically they are negating. They are saying that starting from September even that goes off. That does not hold true.

G.R.K. Prasad: Not in this coal especially

Shankar. K: Yes, because for Tata Power that's where the exact problem has occurred and the management has clarified saying that the initial 3 million tonnes whatever they would have done, they are losing the benefit. They are not getting that fixed price contract at all. Indonesian policy makers are not passing through that.

G.R.K. Prasad: That fixed price has to have a relationship with the Indonesian Index price.

Shankar. K: But that will be at a discount of what level of the fixed price of the market price? That fixed price based on the Indonesian index?

G.R.K. Prasad: It keeps varying, at this time point of time I would say the discount probably is about 10%.

Shankar. K: And obviously the other thing which I forgot to mention was of the peculiar thing that you will get a 20% of the economic profits of the entire coal traded by that entity. So that is the peculiar thing, in that sense.

G.R.K. Prasad: It creates some hedge sometimes. Yes.

Shankar. K: What will be the output of that coal mining company?

G.R.K. Prasad: The coal mine has about 10 million tonnes. So output is roughly about 1.0 million to 1.8 million in one year.

Shankar. K: So you get 20% profits of the entire 1.8 million tonnes?

G.R.K. Prasad: Yes.

Shankar. K: That is likely to commence operations or they will have to start from scratch and it is easily another three to four years away?

G.R.K. Prasad: The coal mine is ready for operations it would start extraction once the takeover happens in about three months time.

Shankar. K: So you expect this to provide to your bottom line starting from fiscal 2013?

G.R.K. Prasad: Exactly. Yes.

Shankar. K: Okay that's a very good positive then. This quarter, obviously there is an uptick in your merchant realization and I believe you would have supplied some quantity to Tamil Nadu, am I right?

G.R.K. Prasad: We were supplying, yes.

Shankar. K: So what's your take on their payment comfort level? How much you have? Is there any outstanding due with you from Tamil Nadu?

G.R.K. Prasad: Nothing. We have received everything.

Shankar. K: And whatever you supplied to them, how long did they take to give you the payment?

G.R.K. Prasad: Normal period is about a month and so they took another month,.

Shankar. K: And your exposure was less than Rs.100 crore? That is the overall revenue?

G.R.K. Prasad: From Tamil Nadu, yes.

Shankar. K: And my last question which is on the agro tech? Have you internally put a cap because like you rightly mentioned the Agro comes with its own set of risks? Have you set internal targets that I will not commit more than certain amount of rupees or over a certain period of time at the initial stage or eventually consistent in the agro business?

G.R.K. Prasad: Not yet, but yes we would like to follow the prudential norms in terms of exposure but at this point of time it is at exploratory phase.

Shankar. K: Yes but in FY 2012 or FY 2013, how much do you plan to spend in that?

G.R.K. Prasad: In FY2012 it will be probably for acquiring land or something like that but FY2013 is too early to get to think of that.

Moderator: Thank you. The next question is from the line of Darshan Dodhia from ICICI Direct. Please go ahead.

Darshan Dodhia: A book keeping question. What is the merchant realization you realized in Q1 FY12? I just missed that.

MN Rao: It is Rs.4.33 per unit .

Darshan Dodhia: Okay and this quarter you have tied up at Rs.3.4 per unit?

MN Rao: Rs.3.5 per unit at gross level.

Darshan Dodhia: Yes, regarding this Zambian coal block? I mean, what is the calorific value of that coal which you will be mining?

MN Rao: Calorific value of high grade coal, which was mining is 6,000+.

Darshan Dodhia: What are the current realizations?

MN Rao: \$65 per tonne for high grade coal.

Moderator: Thank you. The next question is from the line of Bharat Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharat Subramanian: One question on the debtor levels that we have. As of March, quiet high levels of debtors, where is the situation as of now for the receivables?

MN Rao: This receivable is mainly for the exports undertaken through our Singapore subsidiary.

Bharat Subramanian: Okay so at consol levels it is not....

MN Rao: Depending on the USD-INR movement, we will be bringing the funds from Singapore to India, from our subsidiary.

Moderator: Thank you. The next question is from the line of Arjun Archer from Capital Management. Please go ahead.

Arjun Archer: My question is are there any regulatory restrictions or lock in obligations for tax hurdles for repatriation of profits or dividends from operations in Africa into the India listed company, which is Nava Bharat Ventures?

PJV Sarma: I do not think, any specific restrictions, in terms of repatriation We from Zambia especially and from Tanzania as well. In fact, Zambia is quite progressive in terms of attracting foreign investments and have relaxed quite a bit of rules, as such there are no repatriation restrictions.

Arjun Archer: Have you articulated any long-term objectives of management for dealing with cash flows from African operations once the plant stabilizes?

PJV Sarma: We are going to focus on three areas in Africa, one mine related, the second is related to the power and also to about the agri. These are the three focus areas that we are concentrating on. Now as it stands, considering the magnitude of investment we are planning in Africa which is almost about a 3¼ billion in the next two to three years, we expect the flows that are going to come out of sale of high grade coal and power. It will be ploughed back into the Zambian subsidiary, Maamba Collieries only.. We certainly plough back though it is not very significant. Till such time, the power project is commissioned, we expect to plough back the flows coming out of the Zambian operations back into Zambian operation. That is the plan and in the other countries, right now we are in very initial stages.

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

Amit Golchha: Yes, just wanted to check the realizations in the power business that you report, is it gross realizations which you reported or net realizations?

PJV Sarma: You are talking about existing?

Amit Golchha: Yes, existing Rs. 4.33 per unit in Q1 FY12, that is net?

PJV Sarma: That is net.

Amit Golchha: Which States you are tied up in case of quarter 2, is it possible to share?

PJV Sarma: May be we can get back later but at this point of time it will be difficult.

Amit Golchha: Quarter 1 FY12 the other income was slightly on the higher side. Was there any one time income which we booked or was it purely cash?

PJV Sarma: one time income, which you are referring?

Amit Golchha: Rs.13 crore in the last quarter versus Rs.7 crore in quarter 1 FY11?

MN Rao: This is only revenue from investments.

Amit Golchha: If I look at FY11 numbers the stake sale in which we did in case of one of the projects to ESSAR, part profit of that was booked in last year and part money has come in this year?

MN Rao: 50% has come in the previous year that was booked in the previous year only and the balance has come during this quarter.

Amit Golchha: That money is included in the cash which you said was Rs.670 crore.

MN Rao: Yes

Amit Golchha: So, has that money come in our books? Or that is still pending?

MN Rao: That is in the books of subsidiary.

Amit Golchha: Consolidated cash is about Rs.670 crore.

MN Rao: In that it is included.

Amit Golchha: If I look at FY11 consolidated and sale on difference, what I get on the subsidiary fronts, put together all the subsidiaries, we have operating expansions of Rs.33 crore and interest expenses over Rs. 17 crore. Is it the difference between the consolidated and the standalone?

MN Rao: Amit, we will answer this question separately by mail.

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

Mohit Kumar: What is the number of shares after conversion of the entire FCCB?

G.R.K. Prasad: 9 crore plus.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead.

G.R.K. Prasad: Thank you for the questions and if you have any outstanding questions that remain unanswered please feel free to get back to us by mail or by phone. We will be too happy to answer all those questions.
