

Q4 & FY2011 Investors/Analysts Conference Call Transcript May 30, 2011

Siddharth Rangnekar: Good afternoon everyone and thank you for joining us on Nava Bharat's Q4 & FY2011 conference call. We have on the call today, Mr. G.R.K. Prasad – Executive Director, Mr P. J. V. Sarma - Director and Mr. M. N. Rao - GM Finance. The call will start with Mr G R K Prasad making his opening remarks and we shall then have the Q&A session.

I now call upon Mr. G R K Prasad to share his views.

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

I trust you must have by now had the chance to go through our results. I'd like to share key perspectives on how each of our segments has performed during the Quarter and updates on our international ventures;

The power business continues to drive the performance of the company during 2010-11.

During the year, the power business is mainly impacted by:

Active demand management by State Utilities whose financial health has been weak impacting their purchase power;

Wide spread monsoon helping the utilities with higher than normal availability of hydel power over longer periods;

Additions to the generating capacity across the country and resultant float of surplus power on the power exchanges which enabled the utilities to meet their peak and off-peak demands at lower costs;

Gradual shift of higher returns on equity and EBIDTA margins in merchant power in favour of long term contracts offering fixed returns by most of the generating companies and to top it all, the steep increase affected by Coal India in coal prices especially those being used for captive use.

The fiscal year was therefore marked by subdued realizations in the merchant power segment on account of combination of various factors. I just dwelt upon, average power realization for the quarter ending March 2011 and financial year 2010-2011 was at R. 3.76 per unit and R. 3.94 per unit respectively in comparison with R. 4.69 per unit and Rs.5.22 per unit respectively in the previous year. The decline in profit is directly attributable to the fall that has happened in merchant power realizations.

However, given the macro demand and supply scenario and higher cost of generation for incremental additions of power, we expect stable realizations going forward. We expect a better volume performance as well since we will be shortly commissioning our new 64MW facility at Kharagprasad in Odisha. Although this has been delayed over the projected time line on account of factors beyond the control of the company, we are fairly confident that the unit will definitely add to volumes during the current financial year probably for about eight months. The construction work of the 150 MW unit at Paloncha in the Step down subsidiary is progressing as per schedule with targeted commercial operations from Q4 of FY 2013.

On the fuel side, we are using a combination of linkage coal, Washery rejects, e-auction and to some extent the imported coal. I would like to mention that the combination is helping us to maintain the overall cost of fuel at manageable levels.

Regarding the international businesses, as discussed during our earlier conference calls, the Zambia coal mine revamping project is going as per schedule. Substantial ground work has been completed and we expect the new coal handling and processing plant (CHPP) for which orders were placed some time ago is expected to be ready and commissioned by the South African company in early Q3 of FY 2012. Simultaneously, all other necessary equipment would be installed besides revamping of the supporting facilities. We expect that the sale of washed high grade coal to commence by end of Q3 of FY 2012. Meanwhile, a mining contractor has been engaged by the coal company and we expect the preparatory work to commence very soon with extraction of high grade coal to commence during August 2011 to be in line with the time when CHPP is likely to be commissioned around September 2011.

All these activities are synchronized to ensure that the coal extraction and washing commences from October 2011 onwards. We expect the volumes to be gradually ramped up from the initial level of 30,000 tonnes of washed coal per month to 50,000 tonnes per month and then to 80,000 tonnes per month. The peak extractions of coal processing will possibly happen from April 2012 onwards.

Coming to the power plant, which is expected to be set up at the coal mine itself in Zambia, good amount of work again has taken place concerning engineering and selection of contractors for EPC work and the transmission line evacuation work. This preparatory work is expected to culminate in the EPC contracts being finalized by August. The contractual agreements like Power Purchase Agreement, the Development and Connection agreement and the Implementation agreement are in advanced stage of negotiations with the local Utility and the Government of Zambia. These Agreements are expected to be concluded probably by mid July 2011. Simultaneously, while these works are in progress, a concerted effort is underway to initiate the financial closure process where a leading banking consortium has been engaged to advise the company on the Projects, financial structuring and to also undertake Debt syndication to the extent of about USD 500m. The project envisages cost of about USD 750 million, which appears to be higher, compared to earlier broad EPC cost after taking a detailed review of the latest civil construction and other local costs. The integrated coal mine revamping and power projects would be financed with a Debt to equity ratio of 70:30, which would translate into a Debt of USD 500 million and we expect the Debt to be syndicated over the next five to six months, the target dates being end of Q3 of 2012.

Coming to the Laos hydroelectric project, detailed feasibility along with hydrology and environmental impact assessment study are under progress and which are expected to be completed by Q3 FY 2012. Based on the detailed study of the capacity of the plant, which we expect to be in the region of 100-120 MW. The discussions with the local Utility, EDL would commence after the detailed feasibility reports are received with the actual capacity of the plant is arrived at. The Project Development agreement awarded by the Government of Laos would be converted into a concession agreement once Detailed feasibility Study along with a finalized PPA are completed. We expect concession would be awarded in Q2/Q3 of FY13.

One significant development on the Indonesian coal investment relates to a possible resolution that the company might get whereupon the Singapore subsidiary could recover the amount spent as well as be in a the position to tie up the off-take for coal at reasonable price, which will be used in the Indian power generation. The deal is expected to be completed over the next three months, since we have taken some effective steps in that direction.

Our ferro alloys, business is expected to give us some sort of stability in the light of the falling merchant power realization where manganese alloy seems to help us in sustaining margins. As you all are aware, we stopped the production of ferro chrome in our Odisha works after July 2010 and as a consequence, the manganese alloys had to bear the brunt of fixed cost incidence from that unit as well. But for the discontinuance of ferro chrome plant, our performance could have been better and however, on an annual basis we have delivered a marginal improvement in profitability and we expect this trend to continue vis-à-vis the merchant power sales. We expect the manganese alloys production and sales to continue probably on the same scale as has been done during 2010 -11. In respect of Odisha works, where we are going to have three power units, 1 X 30 MW unit, and 2X 64 MW units, we have taken a conscious decision to go back to captive consumption for the 30 MW unit to produce ferro chrome on our own account, probably for a couple of months and later switch over for conversion of ferro chrome for Tata Steel. This development will ensure that the 30 MW power is utilized with a better value

addition related to merchant power realization as also it would allow the company to absorb the fixed cost incidence fully arising out of this ferro alloy plant.

Regarding the sugar business, the demand and supply situation of sugar within India as you all know has been flat and we are in line generally with the market. We have however transferred some of the bagasse generated out of this sugar unit to our 20 MW power plant and owing to the inter divisional sales being existent adjusted at the year end, the unit had to report a loss, but on operational front, sugar division was profitable and self-sustaining. The crushing volumes in the upcoming sugar season may not be much different than about 4 lakhs tonnes that has been done in that season, but we expect a small increase in the overall recovery than about 9.9%, which was achieved last season.

With that I have covered the key points of discussion during the quarter and for the year 2010-11. I would now like to request the moderator to open the session for Questions and Answers. Thank you.

Moderator: Thank you very much sir. The first question is from the line of Sachin Relekar from Tata Mutual Fund. Please go ahead.

Sachin Relekar: This question is on Zambia Capex program and the coal production outlook. This power plant is of 300 MW in first phase, if I am not wrong, so how much will be the Capex for this 300 MW? Why is the capital cost/MW of power very high compared to similar units?

P J V Sarma: The total capital outlay for the integrated coal mine revamping and 300 MW project under Phase-I is about USD 750 m. Out of the above outlay, USD 50 m would be for coal mine revamping project, which would include cost of setting up a new coal handling and processing plant and the balance \$700 million for the 300 MW of power project. It may appear as if for 300 MW power project \$700 million is on the higher side in comparison with units of similar capacity elsewhere but we need to take two to three important factors into consideration, as we have been reiterating for quite some time and are enumerated below:.

Originally, the capital cost for power plant estimates were made before obtaining quotes for the EPC Contract and now with broad finalization of EPC Contract values, the capital cost has been revised upward to about USD 700m. Higher cost of transportation of equipment from a port in South Africa to the site since Zambia is a landlocked country and higher cost of labor are the main contributory factors for higher capital cost. Cost of construction materials like cement also is very high compared to Indian costs. On an apple to apple comparison with an Indian power plant, it definitely looks very high but the capital cost compares favourably with few other coal based thermal plants in countries in and around Zambia which comes to about \$2.7 Million USD per MW,

Sachin Relekar: But if I then look at your PPA, which is going to get tied up at about 9 US cents per unit, how can this plant have Capex at \$700 million?

P J V Sarma: We have worked out the finance model and based on the above, the cost of generation per unit of Kwh at USD 700 million of investment for, 300 MW plant is expected to come to around US cents 8 cents, while we are negotiating with ZESCO for a PPA at a price of over US cents 10, which is expected to provide a Return of equity of 20%

Sachin Relekar: Even if you consider that Zambia is a landlocked country with higher transportation and material costs, the capital cost appears very high in comparison with Indian plants of similar capacity.

P J V Sarma: As mentioned earlier, we cannot really compare the capital costs with plants in India. We need to compare the comparable costs of thermal power plants which have come up in neighbouring countries.

Sachin Relekar: That is around USD 2.8 million per MW.

P J V Sarma: Yes- around USD 2.7 to 2.8 million per MW

Sachin Relekar: On coal volumes please explain the production ramp up plan and when will you start production of washed coal of 30,000 tonnes per month?

P J V Sarma: We expect to commence washed coal sale in the Q3 of 2012 and likely in October. We hope to start with 20,000 to 30,000 tonnes a month and before FY'12 gets closed, the production and sale may be ramped up to about 50,000 tonnes. We target to sell 1 million tonnes of high grade coal from 2012-2013 onwards, which translates to a monthly sale of about 80,000,

Sachin Relekar: What will be your cost of mining and what kind of realization do you expect over there?

P J V Sarma: As I mentioned in our earlier discussions, while washed high grade coal will be sold in the market from Q3 of FY 12, the low-grade coal will be produced as a byproduct. During the implementation of power project, the low grade thermal coal would be compacted and stored for use once power plant is commissioned. The total cost of mining, other costs, interest and depreciation is expected to be about USD 45 to 50 and the sales realization is expected to be between USD 60 to 65. We expect to earn a net margin of about \$10 to \$15 a tonne.

Sachin Relekar: What will be the Capex in Laos?

P J V Sarma: As mentioned earlier, the basic Project Development Agreement (PDA) has been awarded to us i.e. Kobe Green Power by the Government of Laos. Kobe Green Power is a Japanese Company in which we acquired 80% stake. The PDA will be converted into a Concession Agreement, after detailed feasibility study is completed in terms of hydrology, environmental impact assessment, financial and economic viability along with broad framework of power sale. We have awarded the contract for conducting the detailed feasibility study to a reputed and large New Zealand Company called AECOM about 3 months back. Originally the plant was to be 45 MW, but after doing the detailed study, it has been assessed that the capacity of the plant could be between 100-120 MW. The actual capacity would be confirmed once Detailed feasibility study is completed.

Sachin Relekar: In Odisha, it was mentioned that 30 MW will be used captive for ferro alloys initially in FY 12 how much volume will be available for merchant sale in India all plants put together and not including the 64 MW, which is likely to come?

P J V Sarma: After leaving 30 MW for captive consumption, the balance 64 MW plus 64 MW will be available for sale in Odisha. .

Sachin Relekar: How much would be from AP?

M.N. Rao: In AP, , total 114 MW will be available for merchant after taking around 25 to 30 MW for ferro alloy production.

Sachin Relekar: So you will be having close to 178 MW for merchant for the next year?

M.N. Rao: yes

Sachin Relekar: Like last quarter you tied up power for next three months. So this quarter also have you tied up for power for that?

M.N. Rao: We have tied up for some quantity, not for the entire quantity

P J V Sarma: We have tied up around 60 MW for merchant exports up to September.

Sachin Relekar: What realizations you are getting now?

P J V Sarma: About Rs. 3.75/unit.

M.N. Rao: That is net. Rs. 3.75/unit. You can take around Rs. 4/unit at gross level.

Sachin Relekar: Which is lower than what we realized in this quarter right?

P J V Sarma: Yes

Sachin Relekar: After the coal price hike from Coal India what is our cost of generation because, that number has also gone up in this quarter?

P J V Sarma: As we have reiterated in the month of April, the all inclusive revised cost, (after increase in the cost of coal) of generation for the company as a whole will be Rs. 2.20/unit on an average across all the plants. . It would be about Rs. 2.10/unit for AP units, Rs.2.33/unit in Odisha units.

Sachin Relekar: I just worked the numbers for this quarter and my calculation somewhere is around 2.4/unit for this quarter only that is realization minus EBIT and that is divided by number of units which you have sold.

P J V Sarma :The above costs of generation are based on the present costs with increase in the cost of coal and includes interest and depreciation.

Moderator: Thank you. Our next question is from the line of Sanjeev Panda from Sharekhan Limited. Please go ahead.

Sanjeev Panda: The first question is that Indonesia project is no more in our portfolio and how are we going to get back the money. Second, we read in newspaper that another domestic project of 150 MW, which is again no more in active pursuit. Please give the outlook on that?

P J V Sarma: In Indonesia there is a positive development in the current quarter. We have identified a new and strong local partner who would be having the controlling interest with Nava Bharat being a minority share holder. As per the likely agreement, we will get back all the investments and more importantly, supply of the coal will be ensured at reasonable prices. The terms of coal supply are in the stage of negotiations and all that I could say is that there is a positive movement regarding investment made in Indonesia.

M.N. Rao: Regarding 150 MW unit at Dharmavaram, we have dropped the proposal of going ahead in the project, because we have not received the environmental clearance.

Sanjeev Panda: Have we invested anything in that?

M.N. Rao: No. We have not invested any amount in that project.

Sanjeev Panda: What time we can expect the first 150 MW plan in Paloncha to be commissioned ?

M.N. Rao: Q4 FY2013.

Sanjeev Panda: What is the time line for the 64 MW to come?

P J V Sarma: 64 MW plant in Odisha is almost ready and we are awaiting certain formal clearances from the Government. The clearances are expected in a couple of months time.. We will have at least, as Mr. GRK was mentioning sometime back about 7 to 8 months of operation during FY 12.

Sanjeev Panda: Currently what is the proportion of coal that we are using from imported and e-auction?

P J V Sarma: Presently the company, as a whole, uses between 60 to 65% linkage coal, 25% to 30% Washery rejects, 5%imported coal and around 5% e-auction coal.

Sanjeev Panda: Looking at the scenario of merchant power in context to ferro alloy businesses where ferro alloy and ferro chrome seem to be in a better realization trend, what is the strategy that you are going to go for the next year in terms of volume for ferro chrome and power?

P J V Sarma: The strategy of quantum of power utilized or diverted to ferro alloys is dynamic in nature and we keep shifting depending to ferro alloys business depending upon the market conditions... From the last quarter onwards the Silico Manganese prices were on an upswing.. and a part of production facilities in Ferro Chrome plant in Odisha, are likely to be allocated for the likely conversion contract with TISCO. With these two developments, the capacity utilization of ferro alloy plants in both AP and Odisha will be better which , translates into a likely higher consumption of power. We have to keep revisiting the strategy by monitoring the market conditions for merchant power and ferro alloys. Basically we propose to use two furnaces in FY 12 which will translate to around 60,000 tonnes of Silico Manganese and around 5000 tonnes of ferro manganese and in Ferro Chrome similarly about 35000 tonnes of Ferro chrome production..he flexibility of using power for ferro alloys or sell power in merchant sale is an added advantage for the company.

Panda: What is the price where you see the trend changing in terms of realization of ferro alloy and what is the price below, which you do not find attractive to go for power production?

P J V Sarma: Today the prices are hovering between Rs. 55,000 to 56,000 per tonne. At Rs. 55/56,000 per tonne we are making reasonable profits. , Last year the prices were around Rs. 45,000 to Rs. 46,000. At that time, it was not attractive divert power to ferro alloys business. As mentioned earlier, the situation is dynamic and keeps fluctuating., The transfer pricing is done at Rs. 2.70/unit for ferro alloy unit., if the realization and contribution for merchant power is more than the transfer pricing, it becomes economical to divert more to merchant sale. If merchant power prices fall down further and ferro alloy prices increase further, then I think we may do more switching to ferro alloy unit. Not want to make any production at this point in time.

Moderator: Thank you. Our next question is from the line of Vineet Maloo from Birla Sun Life AMC Ltd. Please go ahead.

Vineet Maloo: In this quarter have we started charging depreciation on that 64 MW Orissa plant because our depreciation seems to have increased a little bit.

M.N. Rao: No, we have not yet started charging depreciation on 64 MW new plant. We have not yet capitalized it. Normal capital expenditure would have been the cause for increase in depreciation

Vineet Maloo: If I just look at Q3 we were at Rs. 11 crore odd and we had Rs. 14 crore in Q4, so it is an increase of roughly 30%.

P J V Sarma:Last year it was Rs. 44.3 crore and current year Rs. 44.8 crore.

Vineet Maloo: I am just looking at quarter if I compare with say last year?

P J V Sarma: There could be variation in Q to Q comparison but if you look at the year as a whole, there is a marginal variation. .

Vineet Maloo: So there is no major capitalization.

M.N. Rao: No major capitalization, 64 MW we have not capitalized.

Vineet Maloo: You said you are likely to enter into contract with Tata Steel for conversion, so what kind of terms are we looking at?

P J V Sarma: Since the terms are not finalized, it is not proper to give numbers and we would revert once the agreement is concluded...

M.N. Rao: We will be signing within a week or so and once we sign, we will be informing the exact contract details.

Vineet Maloo: So, we might have 15 to 20 days of operations this quarter itself right?

P J V Sarma: We plan to use a couple of months to complete our existing stock of chrome ore and complete the finalization of contract terms and then switch to Tata contract from then onwards.,.

Vineet Maloo: After the contract is signed and we start, then are we likely to reach utilization of 32,000 tonnes.

M.N. Rao: Yes 32,000 tonnes we will process for Tisco and 3000 tonnes will be processed for our production and around 35,000 tonnes this year we will be processing of Ferro Chrome.

Vineet Maloo: Power cost you have mentioned the average as Rs. 2.20 paisa, does this include depreciation also?

P J V Sarma: The cost of generation of Rs 2.2/unit is all inclusive.

Vineet Maloo: Yes, you do not have much interest cost, depreciation is the main item that you have and the last question again on the 64 MW, you said that you are waiting for some letter from the Orissa Government, so is it just a procedural delay or is there some contention because of which it is hung up?

P J V Sarma: There are no contentions and only procedural time lags. We expect to receive the approval in about 2 months time.

Moderator: Thank you. Our next question is from the line of Ravinder Vashist from IDFC Asset Management co. Ltd. Please go ahead.

Ravinder Vashist: What is the kind of PLF the existing plants are operating currently?

P J V Sarma: All are operating beyond 90%.

M.N. Rao: For the year, the company as a whole, PLF stands at 92%.

Ravinder Vashist: Looking at the way the PLFs are, obviously in FY 2011, there have not been any fuel issues, but going forward even though I understand that it is a blend of linkage plus washery rejects we do foresee any kind of fuel problem, I am also talking in terms of this news item, which was there a few days back, which talked about government contemplating not awarding any coal linkages for merchant power projects going forward, so just wanted to have your opinion on these things?

P J V Sarma: We clarified on this issue in the last quarter as well. We are better positioned compared to a few other power plants due to the proximity to coal washeries and mines in both AP and Odisha.. We are very close to the coal mines in AP and a new coal washery has been brought in to existence in the current year. The washery rejects are becoming a very important source of coal for us as all our plants are capable of using washery rejects that have low calorific value coal. All our boilers are designed to use rejects. With the washery rejects having higher ash content, it is not economical or possible to transport very long distances. . So if a thermal plant is closer to the mine/washery, it would have an advantage. Our plants being closer to washery, we have the advantage in AP as well as in Odisha. As such due to the economic factors mentioned above, we are not unduly concerned about the general embargo or general restriction in terms of coal supplies to the thermal plants.

Ravinder Vashist: So in terms of a new 64 MW in Orissa, is it right to assume that most of the fuel supply would actually come from washery rejects?

P J V Sarma: I would say a major portion of the new 150 MW plant in AP and definitely 64 MW will predominately use washery rejects.

Ravinder Vashist: And both the washeries in Orissa as well as AP are operational now?

P J V Sarma: Yes.

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

Subhadip Mitra: I see in your press release that there has been some amount of consolidation of the loss from the Maamba Collieries, how much is that number?

P J V Sarma: Our consolidated accounts considered proportionate loss of USD 5m.

M.N. Rao: Around USD 8 million is the loss for the year. Out of this, 65% is ours and balance 35% is off minority. 65% of USD 8 million would be about USD 5 plus million and that is the loss which is taken in the consolidated balance sheet for this year.

Subhadip Mitra: Is this primarily with regard to the interest on loan that you mention?

M.N. Rao: Yes, it is due to interest on loan and the operation expenses for this one year met by the company, both put together it is around USD 8 million is the loss for this year.

Subhadip Mitra: And this loan component; how much is the quantum and are we looking at repaying this, how is it sitting on the balance sheet?

P J V Sarma: The loans from the Zambian partner, ZCCM are getting converted into equity whereas our unsecured loans from our Singapore entity as a parent of Maamba Collieries are also getting converted into equity. We expect that as on March 31, 2012, the balance sheet of Maamba Collieries would be rid of most of the liabilities due to conversion into equity during the current financial year. .

We are also exploring the possibility of the Government of Zambia providing relief by way of interest waiver or write off of some interest. With the above restructuring of liabilities, we expect to see positively different Balance Sheet by March 31, 2012.

Subhadip Mitra: With regard to Orissa 64 MW project some component of that we were supposed to sell to GRIDCO at fixed prices, that is still around 20 MW?

M.N. Rao: 12% of existing 64 MW plus the new 64 MW, we would supply to Gridco as against 20 MW that we are supplying presently.

Subhadip Mitra: You would have to supply roughly what 15 MW?

M.N. Rao: Roughly around 16 MW once this new 64 MW is operational.

Subhadip: So roughly about 15 megawatts is what you need to supply?

M.N. Rao: Presently 20 MW with new regulation we have to supply 12% of 64 MW plus 64 MW that is something around 16 megawatt we have to supply to GRIDCO.

Subhadip Mitra: Okay exactly, so that comes to roughly around 15.5 MW, so that means you would actually get close to 5 MW extra power to sell in the merchant market? So this would be from the date of commissioning of the 64 MW.

M.N. Rao: Yes.

Subhadip Mitra: You were saying that you already have contracts in place for selling up merchant power, what is the quantum of power that we already have contracted, I think somewhere 4.2 /unit or 4.7/unit is the number you mentioned?

P J V Sarma: For AP we have contracted for the next three months 60 MW and for Odisha we have negotiated 95 MW.

Subhadip Mitra: The tariff number that we are looking at?

M.N. Rao: It is around Rs. 4/unit on gross levels.

Subhadip Mitra: How much would the wheeling charge be?

M.N. Rao: You can say that to something around 20 to 25 paisa.

Subhadip Mitra: So Rs. 3.75/unit is the net number that we would be looking at?

M.N. Rao: Yes, that is the likely number.

Subhadip Mitra: Lastly with regard to the ferro alloy volumes that we might be looking at for the current year, do we have any targets in place or what are the realistic numbers that we have tentatively in mind?

M.N. Rao: We have a target of 65,000 tonnes of Manganese alloys and 35,000 tonnes of Ferro Chrome, i.e 100,000 tonnes.

P J V Sarma: I would like to add that, the volumes of production of ferro alloys this keep changing depending upon the realizations and market conditions..

Subhadip Mitra: We were also looking at tying up power on a long term basis through case 1 base of PPAs?

P J V Sarma: The prices under Case 1 bidding right now are not that remunerative. Probably we will watch the market, but one thing clearly that comes out is that high realizations of Rs. 6- 7/unit are all things of the past. Now the market is stabilizing. We expect the market to stabilize around Rs. 3.7-3.8/unit net on a long term basis now. If we are able to set a long term contract, even if it is 10 paisa or 20 paisa less for long term we will do it under Case 1 bidding. Otherwise, we will go for a 3 month, 6 month, 9 month contracts around Rs. 3.7-3.8/ unit, or around slightly less than Rs 4/ unit. We expect that the demand is going to be quite good and we will always have an opportunity to sell at those realisations. Whenever there are peaks, suddenly at Rs. 4.5-Rs. 5/unit for couple of months, we would take advantage of the spikes., On the other hand, if we are fixed up, suppose on a long term contract at Rs. 3.4-3.5/unit, we would be deprived of the utilization of spikes in power prices and as such it is not worth fixing up longer period at Rs.3.3-3.4/unit in Case 1 bidding. As we have been reiterating in the last three to four quarters, when whole market was talking about higher prices, we have been always maintaining that it will be around Rs. 4/unit. As such, the year end numbers we finally came out with are not substantively different from what we have anticipated and presented to the analysts and investors. We expect that next year also it will be around this level, around Rs. 3.7-3.8/unit. At the same time, there may be a few pleasant surprises as well for a few months. We do not propose to fix large capacity for long term at rates of Rs 3.3 to 3.4. There could be situations wherein some capacities do not materialise in next year or couple of years which have bid successfully under Case 1 bidding. If they are not able to honor, the electricity boards are required likely to buy power at a higher rates which could provide for generating companies like us to capitalize. Since we are having a geographically distributed assets and 30,40, 50 MW,a portion of the capacity may be put under Case 1 and the balance on short term contracts..At Rs.3-3.20-3.30/unit, it is not worth signing long term contracts for 15 years.

Subhadip Mitra: You do not foresee any challenges on the linkage coal procurements because even our upcoming plants would have a certain component of coal coming in from linkage coal, considering the fact that it would have long term impact.

P J V Sarma: We are not unduly worried about that because we have got a good amount of supply of washery rejects which would be available on long term basis due to economic factors mentioned earlier...

Subhadip Mitra: Okay so the incremental projects as I understand has roughly about 30% coming in from linkage coal of that requirement.

P J V Sarma: The incremental capacity will use a combination of washery rejects, coal through E auction and imported coal.

Moderator: Thank you. Our next question is from the line of Mr. Jay Kakkad from Alchemy Share and Stock Brokers. Please go ahead.

Jay Kakkad: Sir on the linkage coal we said 60% - 65% of the total quantity, is it the percentage of KVA required or is it the percentage of total quantity.

P J V Sarma: I am talking about the total quantity, 60% - 65% you can take on an average, monthly average, around 60% - 65% we will use linkage coal.

Jay Kakkad: Okay, what is the average cost per tonne for the quarter from the linkage?

P J V Sarma: If you look at linkage coal it costs us around Rs. 1300 per tonne, whereas if you look at the washery rejects it costs around Rs. 1000 to 1050 per tonne.

Jay Kakkad: Okay, this Rs. 1300 per tonne is at the mine.

P J V Sarma: Not at the mine but landed price at the plant.

Jay Kakkad: At your plant including freight, okay and what are the e-auction rates for the quarter.

P J V Sarma: E-auction price varies between Rs. 1500 and Rs. 2000 per tonne. On average, it is around Rs. 1600 per tonne.

Jay Kakkad: We have an FSA in place for the entire quantity of acquired coal right with Coal India right?.

M.N. Rao: No, we have linkage for 70% of our capacity at both AP as well as Orissa plants. Out of the total quantity required 70% is through linkage, balance 30% is through e-auction and washery rejects.

Jay Kakkad: I understand that right now you are getting 70% from linkage but I am asking whether agreement is also for 70% or not?

M.N. Rao: The agreement is also for 70%, we are getting the total linkage quantity.

Jay Kakkad: Sir Debtor days have increased for this year end to 70 days approximately, why has it increased so much?

M.N. Rao: This amount is receivable from Nava Bharat Singapore for the exports done. This amount is lying with Nava Bharat Singapore waiting for USD-INR favorable price.

Jay Kakkad: Okay, how much receivables are due from Gridco and volume of sale of units to GRIDCO and AP Transco ?

M.N. Rao: We have to receive only around Rs. 8.5 crore from Gridco as at the year end,

P J V Sarma: We sold to GRIDCO and AP Transco around 106 million units during the quarter.

Jay Kakkad: 50 MW plant in AP it is supposed to be captive it was delineated for captive use last year so do we continue with the something 50 MW delineated captive this year also.

M.N. Rao: Yes.

Moderator: Thank you, our next question is from the line of Vijaykumar Bupathy from Spark Capital Advisors (I) Pvt Ltd. Please go ahead.

Vijaykumar Bupathy: Sir, regarding the cfbc boiler, is it true that technology takes a little more time to stabilize for a new plant?

P J V Sarma: I do not think so., because we have been operating these plants for more than 15 years now, without any problems. With this experience, we are going to use CFBC technology in Zambia as well. We have got a very strong engineering team with good and long experience of operating CFBC technology. We are probably one of very few companies in the country operating completely on CFBC boilers.

Vijaykumar Bupathy: Okay, so both the new plants 64 MW and 150 MW both of them are completely with this technology.

P J V Sarma: Yes,

Vijaykumar Bupathy: Is it possible to tell us who the equipment vendor is?

P J V Sarma: For the 64 MW in Odisha , NTC is the Trbine and Thermax is the boiler.

Moderator: Thank you. Our next question is from the line of Nihag Shah from Emkay Global financial Services Ltd. Please go ahead.

Nihag Shah: I missed the number of units supply to GRIDCO both AP and Orissa in this quarter sir, could you repeat that number?

M.N. Rao: 106 million units were supplied to GRIDCO and Transco and we have realized Rs.371million.

Moderator: Thank you. Our next question is from the line of Amol Kotak from ASK Investments. Please go ahead.

Amol Kotak: You said 64 MW new expansion will start somewhere in August right.

M.N. Rao: Yes somewhere in August.

Amol Kotak: Okay and you had two power plants of 150 MW, out of those 150 MW, when are you expecting that now?

M.N. Rao: In Q4 FY 2013 one plant will be commissioned and we are not going ahead with the other plant as already mentioned.

Amol Kotak: Is there a delay in that again?

M.N. Rao: Originally it was envisaged for 2012. There may be a delay of one or two months.

Amol Kotak: Second 150 MW you said that plans were on hold, so what is the update on that.

M.N. Rao: Since we have not received environmental clearance, we have dropped setting up of the second 150 MW.

P J V Sarma: We have given press release and informed to the Exchange also long back in this regard.

Amol Kotak: One question, in your press release your debt on a standalone basis has come down and on consolidated basis has increased so could you just explain this movement of debt?

M.N. Rao: Consolidated level there is a debt of USD 60 million on Singapore balance sheet that is why there is increase in consolidated debt.

Amol Kotak: But that debt has been raised for?

M.N. Rao: It has been raised for investing in the MCL Coal Mine.

Amol Kotak: Okay and the standalone debt has gone down because of FCCB buyback.

P J V Sarma: on account of repayment of loans.

Amol Kotak: On your Capex program, how much have you spent last year and in the next two years how much are you going to spend for the group as a whole?

P J V Sarma: Let me tell you on a consolidated basis the capital investments that are going to happen in the next two to three years. The biggest investment is USD 750 million on the Zambian project. USD 750 million is going to be funded 70:30, so \$250 million will be the equity component. . We need to invest about USD, \$160m million (65% of equity requirement) from Nava Bharat Group in to the equity capital of Maamba Collieries, and the balance USD 90m being 35% would be brought by ZCCM, the investment arm of the Zambian Government . The Laos project total cost is around \$200-225 million, would be funded with a debt equity of 70 : 30 and as such USD 50-60 million will be our contribution out of which 20% is expected to be invested by the Laos Government.. Regarding our domestic projects, as Mr. Rao was mentioning, the 150 MW plant cost is Rs. 660 crore out of which 200 crore would be the promoters equity and the balance is debt. Besides the above capital expenditure there could be a few crores of rupees on normal capital expenditure. In all, the investment on international and domestic projects would be about USD \$250 million over a period of three to four years.

Amol Kotak: So how you are going to fund this \$250 million.

P J V Sarma: We have a cash of about Rs. 600 to. 630 crore, in the group that would be about USD150 million. We expect annual accretion of cash – of around USD 50 to 60 million of cash . With the cash balance of USD 150 m and addition of another USD 240m over a 4 year period, there would be no problem.

Amol Kotak: So basically there has been no dilution

P J V Sarma: There is no dilution.

Amol Kotak: And given all these projects what would be your peak debt in absolute numbers?

P J V Sarma: USD 500 million will be the debt in MCL books - Zambian Books, and another USD \$140 million for Laos which adds upto to USD 640 m and with the domestic projects the aggregate debt on the group books could aggregate to about USD \$700 million

Moderator: Thank you our next question is from the line of Vaibhav Bharadia from FinQuest Securities Pvt. Ltd. Please go ahead.

Vaibhav Bharadia: You said that there will be a total investment of close to \$ 250 million from NBVL in the upcoming projects is that for FY 2012 & 2013 both?

P J V Sarma: The capital investments would spread over 2012-2013, 2013-2014, 2014-2015 and may spill over to 2015-2016, because hydroelectric projects will take longer than thermal projects.

Vaibhav Bharadia: For the next two years, how much of it has been planned out of USD 250m equity contribution and is going to get disbursed?

P J V Sarma: It is difficult to be precise since many factors influence the actual capital investment like financial close, status of various approvals but we could say commitments for EPC by way of L/C and balance expenditure. We may invest from the group of about USD 150 -160m on all the projects

Vaibhav Bharadia: So on the basics like you will be going through the same 70:30 system for financing of these projects, 70:30 DE ratio.

P J V Sarma: Yes.

Vaibhav Bharadia: How much sugarcane have you bought and at what price?

P J V Sarma: This season we have crushed around 4 lakh tonnes of sugarcane and have paid Rs 2050 per tonne of sugarcane. But as you said this is really an insignificant portion

Moderator: Thank you our next question is from the line of Vineet Maloo from Birla Sun Life AMC Ltd. Please go ahead.

Vineet Maloo: We had given this notice for FCCB holders to convert into equity, but it is still to be done, what exactly is this?

P J V Sarma: Sometime in February 2011 we issued the conversion notice but due to some technical and legal issues like getting some PAN card, registration requirement in India, FCCB holders are waiting for the formalities to be completed, I think we expect maybe in a month's time is needed to complete the same that and then the allotment will take place.

Vineet Maloo: Does it influence the conversion price?

P J V Sarma: No. February 27th or 28th 2011 is the, effective date of the conversion and on that date conversion is deemed to have taken place.

Vineet Maloo: So at Rs.122 odd something will happen right. The debt that you are going to take in MCL in Laos, would it have recourse to the parent balance sheet?

PJV Sarma: We do not expect to have recourse, but if required maybe we need to do that to a limited extent. It is too premature for us to talk about it, we would like to finance them on a Project financing sector basis. Some comfort may need to be provided like limited recourse under certain eventualities. We could have a clarity at the financial closure stage.

Vineet Maloo: And this MCL could you just provide broad capital structure how does it stand right now?

P J V Sarma: It has been in existence for many years. It has a relatively small balance sheet with a size of about USD \$80 to 90 million., It contains assets basically relating to mining equipment and outstanding liabilities are mainly amounts payable to Zambian government and small amounts of debts to banks and balance from ZCCM. The balance sheet size would substantially increase once capital investment in coal mine revamping and power plant are implemented.

Moderator: Our next question is from the line of Shankar K from Edelweiss Securities Limited. Please go ahead.

Shankar K: On the same FCCB issue, the holder is still largely the Lehmann arbitrator?

P J V Sarma: It is Kingfisher.

Shankar K: The entire 14.5% is largely only with them is it? And you think that that will get converted?

P J V Sarma: Conversion would definitely happen subject to only some legal formalities.

Shankar K: Okay and the second part is on the Zambian coal mines you had earlier indicated that there is some inventory lying around 5 million tonnes which you plan to unwind and earn some profits or sell that coal just wanted to know what is the status of that?

P J V Sarma: it is about 2 to 3 million tonnes and is getting sold now, there is good demand for high grade coal in Zambia, cement companies like Lafarge are buying.

Shankar K: The point is, have you affected any of those sales in fiscal 2011?

PJV Sarma: High grade is being sold and thermal grade coal is being compacted for consumption in the power plant.

Shankar K: I am not referring to the perspective ones, I am saying on a retrospective effect, as you as you took the coal mines there was some inventory lying right?

P J V Sarma: We have both high grade and low-grade coals as mentioned .Low-grade is being compacted because some of the low-grade coal which is lying carries a risk of self combustion. Small amount has been combusted also and to avoid further combustion , it is going to be compacted in the next two to three years also. When we are going to mine out the high-grade coal, the low-grade coal will come as a by-product which is required to be compacted and kept for two to three years.

Shankar K: My question was the entire thing which you have already done, you have unwound some of the inventory that you have done in fiscal 2011, and in the financial result where are you reporting it?

P J V Sarma: Whatever is the remaining there it will be shown in the stock, but high grade coal quantity stock is little less now. All high grade coal is already being sold in the nearby cement plants.

Shankar K: So how much is the profit that you book from this activity?

P J V Sarma: It is difficult to make an estimate of the profit since this is an old stock lying for quite sometime.

Shankar K: And you expect the 50,000 tonnes per month, you are planning to start with that number right, the Zambian coal mine?

P J V Sarma: As GRK was mentioning it starts with around Rs. 20,000 to 30,000 per month which will be ramped upto 80000 tonnes in about 6 months time.

Shankar K: From which month are you planning that.

P J V Sarma: May be around October-November.

Shankar K: Okay I will give you a call later then.

P J V Sarma: We will give all the details of the exact break up of tonnes of high grade coal, fines , low-grade coal, since these details immediately are not available but we can give it to you.

Moderator: Thank you. Our next question is from the line of Nikhil Salvi from IDFC Securities Limited. Please go ahead.

Nikhil Salvi: I wanted to know about the MAT credit that is available. How much is available with you and how are you planning to book it over the next couple of years?

M.N. Rao: MAT credit available is around Rs. 140 crore as on March 31, 2011. We will be using over the next years depending upon the new DTC.

Nikhil Salvi: Secondly in Q3 and Q4 FY11 the employee cost on a year-on-year basis has fallen, in Q4 it is around Rs. 18 crore, Q3 it is around Rs. 12 crore compared to Rs. 25 crore in Q4 FY10 in around Rs. 15 crore in Q3 FY10?

P J V Sarma: The biggest contributor is the decrease in the commission payable to the whole time directors now, last year the profit was around Rs. 490 crore, this year the profit is around Rs. 300 crore . The percentage of commission obviously will be substantially lower here, it is about 60 % of last year and that makes a substantial difference. .

Moderator: As there are no further questions at this time I would like to hand the flow back to the management for closing comments.

P J V Sarma: Thank you all.and we will be glad to answer any further questions. Please drop in a mail or through Siddharth or Karl you could route the question or you can directly email. With that note, I thank you once again all of you on behalf of Nava Bharat.

M.N. Rao: Thank you very much one and all.
