

Q2 & H1 FY2011 Investors/Analysts Conference Call Transcript November 02, 2010

Siddharth Rangnekar: Good morning every one and thank you for joining us on Nava Bharat Ventures Limited Q2 & H1 FY 2011 conference call. We have on the call today Mr. P. Trivikrama Prasad, Managing Director and Mr. G.R.K. Prasad, Executive Director and senior members of the management team. The call will start with Mr. Vikram Prasad, making his opening remarks and then we shall have the session open for Q&A.

I would now like to invite Mr. Vikram Prasad to make his opening remarks.

Vikram Prasad: Good morning everyone and I welcome you to Nava Bharat quarterly results conference call. I trust by now, you have had the chance to go through our results.

Nava Bharat results remain driven by the power business. Two factors are critical to our results during the quarter, firstly the anticipated decline in the merchant tariffs took hold and secondly we experienced a prolonged and good monsoon, both of which resulted in subdued merchant power business.

Before I get into the detailed discussion on the results, I wish to touch upon our international foray into coal mining, thermal power, and hydropower overseas. Nava Bharat's model of distributed power assets includes overseas projects which will ensure sustainability in earnings and profits from this business. The subdued trend in the domestic power realization validates our position to some extent.

The Zambian mine acquisition and the subsequent restructuring operations undertaken by the Company will bring about long-term health to this coal mine. The coal mining Company has since reduced its workforce to 20%, ordered new coal handling and processing plant and is in the process of reviving the sales of coal which have been suspended for quite some time. Though some cash generation is visible in the current fiscal, real ramp up of high-grade coal sales would commence from second half of FY 2012. On the other hand, PPA negotiations are on expected lines giving high-degree of comfort for power generation and sale in the SAPP region including Zambia. We have floated inquiries for EPC contracts for 300 MW power plants in phase I and selection is expected by the end of February 2011. Financial closure for the coal capex is more or less done while for the power plant project should be done by June 2011.

In our latest initiative, our Singapore subsidiary has partnered with a Japanese company to develop a 129 MW hydropower project in Laos. The overall project cost is estimated about USD 200 million and the project should be grounded in the second half of 2012. This project marks our entry into the green energy space and also helps us diversify power generation feedstock.

The Power segment remains the primary engine of both our revenues and profitability. The revenues here stood at `168 crore for the quarter. The corresponding PBIT was at ` 88 crore in the same period. There was a sobering in the merchant power rates on account of remarkably widespread and prolonged monsoon across the country and the drop in purchasing power of the state discoms. We expect merchant power rates to be subdued for the rest of the calendar year on account of active demand management and load shedding being resorted by the power utilities. We expect an uptick in merchant power rates from the fourth quarter onwards. The financial health of the State Electricity Board and rationalization of tariffs are key factors, which determine the course of merchant power rates going ahead.

The volume momentum in power remains good. While we will be committing a larger capacity to merchant usage in H2 FY2011, we shall also get the benefits of the new 64MW plant by the end of the fiscal year. Secondly, I am pleased to note that we continue to benefit from adequate coal supplies. But we remain cautious about coal and we will continue to monitor the development closely.

Moving to the Ferro alloy business during the quarter, revenues from this segments were higher at ` 120 crore as against ` 40 crore in Q2 FY2010 and we made a marginal PBIT loss of ` 51 lakhs in Q2 FY2011 mainly on account of fixed costs in chrome operations. The Manganese Alloys segment continues to improve in performance steadily. Our chrome alloy business is affected by high input costs and subdued demand from the dependent stainless steel industry. Our outlook on ore cost is moderate. We are assessing the demand and realisation scenario closely. Given the expected record production of steel in the next few months we anticipate that the momentum in Ferro Alloys will be healthy.

Regarding the sugar business, revenues from sugar segment stood at `19 crore in Q2 FY 2011. PBIT was a loss of ` 1.5 crore. In sugar, we must focus on two important factors; an anticipated shortage of sugar in Brazil and the expected surge in domestic production. Cane cost for the sector as a whole are expected to remain high. Our hope is that for us, they remain at the same level as the last season -i.e. at about Rs.200 per quintal. We believe that the reduction in levy quota, stable sugar prices as at the current level in the likelihood for sugar exports will surely benefit us in the ensuing season.

Robust economic growth combined with power deficit of nearly 14% reinforces our belief in the power centric model. To conclude, I would like to say that the 364 MW domestic capacity expansions will help us to ramp up merchant power volumes in the coming years. Therefore, we foresee the power segment to drive operations going ahead, leading to enhancement in earnings potential of the Company.

With this I have covered the key points of discussions during the quarter and I would now like to request the moderator to open the session for question and answer. Thank you.

Moderator: Thank you. The first question is from the line of Subhadip Mitra from Edelweiss. Please go ahead.

Subhadip Mitra: Sir my first question is with regard to the Ferro Alloy segment, we are seeing that there has been a loss in the current quarter because of high fixed cost in the chrome operations, that is what you have mentioned. Can you please tell us a little more about what we are expecting and why we are looking at higher costs and losses here?

G.R.K. Prasad: You will recall that, chrome operations were resorted on account of limitations in terms of power dispatch, as there was no second transmission line. The second transmission line came about in July. So effectively from August onwards we stopped the production of Ferro Chrome. Till then, we were required to produce Ferro Chrome though on a relative scale it was not comparable to power sale, but the basic underlying theme was to optimize power generation. We had produced Ferro Chrome and sold a part of it during the quarter, while balance is of course being liquidated now. But the fixed cost incidence as a result of this stoppage of production had really impacted the segment. Though on a standalone basis, Manganese Alloy business did turn out to be profitable, to some extent that profitability got negated by this fixed cost incidence in Ferro Chrome. Going forward we except the power despatch from our Orissa unit, going at about 80 MW, will take care of this fixed cost incidence as well. For reporting purposes, we need to continue to show this cost incidence under Ferro Alloys while the resultant profit would get factored in the power segment.

Subhadip Mitra: What is the quantum of fixed cost that we need to book every quarter or every year for the Ferro Chrome segment?

G.R.K. Prasad: I would like to take it separately Shubhdeep if you do not mind.

Subhadip Mitra: Not a problem. Sir, here on, what is our outlook in terms of Ferro Alloys? Are we looking at better realizations coming in the forthcoming quarters and hence better profitability?

G.R.K. Prasad: Ferro alloys business seems to be going through some kind of adjustments as we speak. We are a bit amazed in terms of why the Ferro Chrome prices have not really moved up. Notwithstanding the fact that, you know, the dominant players in South Africa are suffering from high power costs and high input costs as well. So the only reason for the Ferro Chrome to be at this level is lack of demand from stainless steel, which seems to impact the margin. But the situation in other segment i.e. the primary steel where Manganese Alloys are consumed seems much better. We see at least volumes are not impacted in anyway and flow is being very consistent. I would expect the prices will also rise going forward, but at this stage, we are cautious in terms of how much the increase can be. But we definitely see slightly better performance in terms of Manganese Alloys going forward.

Subhadip Mitra: Okay. Understood and in terms of the merchant rates as we were mentioning that you are expecting slightly sluggish period for Q3 and possibly Q4 onwards you are expecting a rise?

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

Subhadip Mitra: I see.... Sir any clue as what is the going rate for the Q4 kind of numbers and what is your expectation. What are you expecting for Q4 merchant rate etc.?

G.R.K. Prasad: If you look at the current rates, they are below ` 4 per unit. This is because of the effect of the monsoon and the cascading effect of monsoon over the subsequent months and also because of hydropower generation. But Q4 we are reasonably certain that the rates will be above ` 4 per unit and we are looking at marginal increase from Q1 FY2012 as well.

Subhadip Mitra: So Q1 FY 2012 you are even more hopeful of better rates thereon?

G.R.K. Prasad: Yes. So, this particular phenomenon that also we see in merchant power rates seems pretty much influenced by the protracted monsoon, so of course the paying capacity of Discoms also plays a significant role, but you know given that the demand management is likely to continue for a while, we are not looking forward to an increase in Q3. In Q4 FY2011, all the distribution companies will be under pressure to supply power, that is when the merchant power rates are slated to go up.

Subhadip Mitra: Understood and with regard to the upcoming capacity in Orissa that is coming up by end of this year, are we looking at tying up any portion of that on a long-term basis on case one or we are still keeping it open for merchant.

G.R.K. Prasad: We are looking at case one bids very seriously for part of the current generation as well, but more importantly for our forthcoming two units of 150 MW. So case one bid is being explored, of course we have to see how the bids unfold. We are looking at part of the power for long-term tie-up.

Subhadip Mitra: Is there any existing tender in case one right now by any state?

G.R.K. Prasad: Andhra Pradesh has recently floated one. We have participated in it against that, so we are looking forward to another state for bidding.

Subhadip Mitra: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Enam Direct. Please go ahead.

Pankaj Bobade: Can you please help me with the realizations of ferro alloys?

G.R.K. Prasad: Current realizations we can speak about Silico Manganese is currently being sold at about ` 56,000 per tonne and Ferro Manganese ` 57,000 per tonne and Ferro Chrome ` 65,000 per tonne.

Pankaj Bobade: In opening remarks you talked about JV with a Japanese player, for the Singapore subsidiary. Can you please throw some light on it?

G.R.K. Prasad: Well, this is a hydropower generation unit, which has been awarded by the Government of Laos to this Japanese Company. The Japanese Company is called Kobe Green Power and this Company has been working on this project for about three years now.

Pankaj Bobade: What is the capacity?

G.R.K. Prasad: This is slated to come to about 129 MW. The detailed assessment is to be done, but what is important is, we are talking about a place where the hydro energy has been proven with guaranteed PLF of almost about 50%, though it could go up, and this being one of those demand areas, which is actually feeding power to Thailand also. So we expect this power project will have a much better revenue generation as well.

Pankaj Bobade: Sir, how much would be your contribution in dollar terms and what would be the stake?

G.R.K. Prasad: The estimated project cost is about USD 200 million and it is supposed to be funded on a debt equity ratio of 70:30. So the equity portion is about USD 60 million and this 60 million equity is being shared by Nava Bharat, the partner, Government of Laos in a ratio of 60:20:20.

Pankaj Bobade: Okay. NBVL 60, Kobe 20 and Laos Government 20, right?

G.R.K. Prasad: Right. Government of Laos is more like an option in case they do not take it then Nava Bharat will have 80%.

Pankaj Bobade: When will this funding infusion be done and when the project is expected to be completed and running?

G.R.K. Prasad: The fund infusion will take place over about three to four years. The project currently is at the feasibility study and environmental impact assessment stage. We expect the project to achieve a concession agreement from Government of Laos in about nine months' time. From there, the implementation is scheduled over a period of four years.

Pankaj Bobade: Okay.

Moderator: Thank you. The next question is from the line of Jay Kakkad from Alchemy Shares. Please go ahead.

Jay Kakkad: Based on the current contracts, what is the expected merchant rate for Q3?

G.R.K. Prasad: On an average it fetches us about ` 3.70 per unit.

Jay Kakkad: Sir, in the 64 MW plant so what is the status, has boiler light up happened?

G.R.K. Prasad: Boiler is ready for light up, we are waiting for some last minute clearances, so the light up and the other things will take probably about next two months' time.

Vikram Prasad: There is a slight delay because of these heavy rains in all these areas and our project sites.

Jay Kakkad: Okay, so you expect commissioning by mostly in January-February?

G.R.K. Prasad: I would say in Q4 FY2011.

Jay Kakkad: Okay definitely in Q4. There is an increase in the debtor days significantly. Can you throw some light on that?

G.R.K. Prasad: Well that needs to be reckoned from the perspective of a substantial amount being held at our Singapore office.

Jay Kakkad: Okay. Substantial amount is held at the Singapore office?

G.R.K. Prasad: It is actually realized of about ` 90 crore. It is already realized and we are waiting for a better forex movement to bring the money in. So that is why the DSO is very comparable.

Jay Kakkad: No effect of the sale of power to SEB's right? It is not because of the effect of sale of power to SEBs?

G.R.K. Prasad: No. Actually there is some outstanding sum from GRIDCO, but that is a very small amount.

Jay Kakkad: Okay. Sir, what is the status of the Indonesian mine that we had acquired?

G.R.K. Prasad: Well for the Indonesian mine, as we were telling, the forestry policy clearance was being pursued and in fact it is more or less received. But you know, at the last minute there arose some other issues mainly related to our partners. It is a joint venture of three people, where there are some differences of opinion. We are actually sorting them out now. Hopefully, once that is done then we can start the mining operation, but the problem with Indonesia is that it is taking longer time. So we would like to put a caution on that. We expect the resolution to happen anytime in the next few months, so it would enable us to move the coal out.

Jay Kakkad: Okay, so after that you expect the start to happen after two months?

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

Jay Kakkad: Okay. Thank you sir.

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

Sachin Relekar: I just want to know, like we are expanding this 2 X150 MW plus the Zambia Capex program is going on. In the next two to three years what kind of our Capex requirement will be there and what kind of internal accruals and cash we are banking on for that?

G.R.K. Prasad: We are starting with a good head start as you would have noticed. We are now sitting on close to about ` 700 crore of cash which can address initial equity requirements for the Zambian project as well as for the two units of 150 MW unit. If you look at that for the next three years, it will not exceed about `1100 crore. I mean initially we may not be required to put in all that money too, so that way we feel that internal accruals will be the principal driver for meeting these equity requirements. We are also looking at a scheme whereby both these assets being controlled by Singapore subsidiary, whether a small dilution in Singapore subsidiary, if possible. It is more to bring about an international perspective to the business and also to bring quality investors into the overseas investments.

Sachin Relekar: Okay. Specifically, I am questioning this because there was a news item that you are actually looking at raising some funds with QIP and all.

G.R.K. Prasad: Not QIP definitely, because we are not talking about any dilution in the listed company. What we feel and we are pretty convinced is that the international assets are better diluted at the Singapore Company level rather than here.

Sachin Relekar: Sir, on our composition of power sales and in-house usage, you said like may be now that the power tariffs are not that attractive and there is some demand in Ferro Alloys as well, is there some policy decision as to how much Ferro Alloys you want to produce for the remainder of the year and at what price points you want to make that decision? Like if it falls below 3.5 per KWH, it will be more beneficial in terms of producing Ferro Alloys rather than going for merchant sales. Is that kind of an equation we have worked out?

G.R.K. Prasad: As we speak, unless the prices would go below ` 3.00 per unit, I do not think that it makes sense to increase Manganese Ferro Alloys any further. So, we would continue to keep the production level at the current level, which is pretty subdued if you ask me, because, we are using only two smelters. We would revisit that in case the Ferro Alloy prices are increased. It is a dynamic situation dependent on multi-variables rather than a single variable.

Sachin Relekar: All right Sir. Thank you.

Moderator: The next question is from the line of Sanjeev Panda from Karvy Stock Broking. Please go ahead.

Sanjeev Panda: Good morning Sir. My question is that, we are looking primarily on the merchant power rates and the kind of feel it has been in the last two quarters, the declining trend, so as you discussed earlier in the conference that, you see some kind of marginal improvement in Q1 FY2012 and probably in Q4 FY2011 as well, could you please help us to understand what is the reason or why we can see that turning around? Second thing is that, have you seen that movement? Any indication in this recent time also?

G.R.K. Prasad: Well, we are getting the comfort from the inquiries that we keep getting. So, it is a business of spot market we are in at the moment. What is important, what needs to be understood is that this kind of monsoon behavior has been absolutely unforeseen and possibly

unprecedented for a while, so, we are actually witnessing a phenomena where our utilities are adduced a lot of comfort in terms of hydropower generation. To tell you very frankly despite such a good monsoon and despite such a big hydropower generation increase the demand management is continuing. So what is quite relevant is at some point of this particular demand management, the utilities have to sell power. I think that's when the merchant power rates are likely to take an increase, but till an active demand management continues and distribution Company's financial health is not improved, you will find merchant power rates to be under some kind of pressure, which was expected. It is not something new and is something we expected all along, but perhaps it came a little bit early.

The other important factor that one need to consider is that how does the cost of generation change in terms of feedstock cost. We are looking at substantial power generation coming from either imported coal fired power generation or a blend of local coal with imported coal going forward. In which case I see no reason why the merchant power rates could come down to such an extent that all the generation becomes unviable. But believe me we would like to share with all of you, basically, the power scenario will be guided by what cost of generation one can produce and how the utilities look at it in terms of their ability to pay.

Sanjeev Panda: Okay sir. Another thing is that, if at all this scenario say in the next three to five years' time period the number of production capacities that is coming up in the Indian scenario. In case the kind of shortages that we see 10% or 12% kind of shortage in power shortage, if that goes down, in that scenario can the merchant power player like Nava Bharat can move towards PPA?

G.R.K. Prasad: We are definitely looking at tying up atleast 40%-50% of power on a long-term sale basis.

Sanjeev Panda: Okay, so there is no regulatory constraint or regulatory hurdles to move into that?

G.R.K. Prasad: There are no hurdles really; we are looking at a good opportunity to do that. Opportunities have to come our way to do that too.

Sanjeev Panda: Okay, but otherwise there is no restriction in terms of regulatory aspect. People who are already PPA and people who are already merchant cannot get into the PPA?

G.R.K. Prasad: No, there is no a regulatory hitch at all.

Sanjeev Panda: So it is basically if you get something you can always get into it looking at the market scenario?

G.R.K. Prasad: See we always believe that the merchant power scenario would actually be a kind of honeymoon period for all the power generation units. Probably what we were holding is for three years or so we should be in this segment and then lock ourselves in for the long-term power supply arrangement.

Sanjeev Panda: To add to your point, we have observed that in the last six months when prices have actually cracked down, during this point of time the supply of power is not going up. But at the same time the consumption is actually going down despite the lower prices in that scenario, what people are saying that supply will come up because of which prices are coming down. But that is not the true case what we have seen in the last six seven months?

G.R.K. Prasad: Last six months if you ask me is an aberration. Because the demand fall is induced – one is on account of protracted monsoon and second is on account of active demand management. You are not actually seeing the ground reality, whether the power is being supplied to the needy. I do not think that is happening.

Sanjeev Panda: Fair enough Sir. Thank you.

Moderator: Thank you. The next question is from the line of Manish Agarwal from E-Value Serve. Please go ahead.

Manish Agarwal: Good afternoon Sir. What was the merchant tariff realization for the quarter?

G.R.K. Prasad: On an average about `4.37 per unit was our realization for the quarter.

Manish Agarwal: This was the gross or the net, some kind of charges also there?

G.R.K. Prasad: Yes, yes it is on gross.

Manish Agarwal: Thank you sir.

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

Amit Golechha: Good afternoon. I have two questions. One is on Ferro Alloys and one on Power segment. Would it be possible for you to give the costing of different segments of Ferro Alloys as of now and particularly I wanted to understand the variable and fixed costing in case of Ferro Chrome and is it that you have to run your plants at a particular utilization level to keep your plants up and running?

G.R.K. Prasad: For the detailed costing, I would like to interact separately. But the second question - the cost should not undergo change because of the level of production. Our fixed costs are considered pretty low in terms of industry average. So that is not impacted by the reduction of production. You must understand one thing we are actually transferring power to the Ferro Alloy and it is at price equivalent to the market rate of power that the Ferro Alloy has to pay in case it outsources the power.

Amit Golechha: Okay, so that is the merchant rate?

G.R.K. Prasad: It is not exactly merchant rate. I am saying the transfer price itself is much higher than the cost of generation. To analyze the Ferro Alloy business, you need to factor that a part of that business is actually contributing to the power business.

Amit Golechha: Some profitability is being transferred to power generation business. Is it that you have to run your plant at a minimum utilization level to keep your plants up and running or you can close down the plant for one or two months and then suddenly start producing?

G.R.K. Prasad: We can do that except that we are holding a separate unit for captive power generation like in AP, our 50 MW is a designated captive unit, so we are required to consume at least 51% of that power, which is generated from this unit on an annual average.

Amit Golechha: Okay, basically 26 MW units have to consume?

G.R.K. Prasad: That is the only limitation, otherwise we are pretty free to close the production for full year and then sell power off.

Amit Golechha: Secondly sir in case of power, about 71 million units has been sold to GRIDCO plus APPCC. Basically two things, one is what realizations have we got from this and secondly when you expect the evacuation problem to be sorted out?

G.R.K. Prasad: In Orissa that is behind us. We are now dispatching the 80 MW of power i.e.net power.

Amit Golechha: From when, Sir?

G.R.K. Prasad: From August. The GRIDCO's rate is ` 3 per unit. APCC hovers around ` 4.25 per unit on an average. There was time when they were paying `4.52 per unit.

Amit Golechha: So that basically is a merchant power that is not because of the evacuation?

G.R.K. Prasad: In AP we do not have an issue on evacuation.

Amit Golechha: Thanks a lot.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Birla Mutual Fund. Please go ahead.

Vineet Maloo: Good afternoon, Sir. Just wanted to know the rate that you mentioned ` 4.37 per unit was our realization and you mentioned that merchant realization Q2 indicatively are doing like ` 3.70 per unit. Are these two are comparable or there is some different charges, which we are looking?

G.R.K. Prasad: ` 3.70 per unit needs to be increased by about 0.30 paise, so it is about ` 4 per unit.

Vineet Maloo: So ` 4 per unit versus ` 4.37 per unit, then it would become comparable.

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

Vineet Maloo: I just wanted some clarity on cash flows, you had indicated earlier also that you have some investments going to be flowing into Laos etc., Sir, what will be the timeline exactly year wise cash flows if you can give us a total, how much are going to Zambia, Laos and Indonesia in the next three years?

G.R.K. Prasad: I think the current cash flows that are planned are more in terms of Zambia, for which in this year we expect another USD 25 million to be invested as part of our equity funding and USD 50 million following year, that is FY2012 and about another USD 50 million following year in Zambia. Whereas the Laos thing is more in the nascent stage, so the investment that is the USD 60 million or 80% of that is what is being factored. We will be actually spending from FY2013 onwards. So before that probably we will do some development cost, but that is probably in the region of about USD 4 million or so.

Vineet Maloo: Sir, did we pay any price to this JV we bought the stake or how is it done, because you said we have been working for the last three years on this?

G.R.K. Prasad: Yes, we are in a way lucky that we did not have to pay anything except that we need to incur these development costs of USD 4 million. You could say that USD 4 million is the cost that we have agreed to bear which is a consideration for sale of stake.

Vineet Maloo: This will be over and above our equity contribution. And in Indonesia?

G.R.K. Prasad: Indonesia is a coalmine. We have deployed USD 4 million, balance is about USD 14 million, so that I think, will actually flow in FY 2012.

Vineet Maloo: FY2012 only not this year?

G.R.K. Prasad: What we have agreed is we would pay that money once the sale of coal will happen on a sustainable basis. So we would like to watch because having waited so long and we are a bit cautious here. So we told the party that we would part with money only upon sustained coal sales, so in between what happens is that the profit sharing would be a little impacted but we thought that is a better way rather than parting with the money.

Vineet Maloo: In India, how would it look like for expansions 2 X150 MW?

G.R.K. Prasad: The one unit, which is grounded, is on track. The groundwork has commenced and we have more or less received all the clearances, and ordering, as you know took place in July 2010 and basic engineering part of the BTG is more or less done. This 150 MW Unit is slated to go on commercial operations in October 2012. The other 150 MW unit, which is located near Kakinada Port is still awaiting the environmental clearance. Once that comes we will ground the project.

Vineet Maloo: Sir, we were thinking of doing it at the same location right, if there is a delay in this clearance?

G.R.K. Prasad: Yes, of course, this is not yet been decided. I was about to come to that. We have received the environmental and pollution control clearance for the two units of 150 MW each at the location where the first ordering took place. So we have kept that option open to possibly go with the second ordering, at the same place but not yet done.

Vineet Maloo: But we have yet to make up our mind regarding this way too?

G.R.K. Prasad: Obviously, there is a slight degree of economy in terms of locating the units near to Kakinada Port that is why we are waiting for that clearance.

Vineet Maloo: Okay, I understood. Sir lastly how much cash and equivalents did you mention we have as of now?

G.R.K. Prasad: On a standalone basis, it is ` 680 crore.

Vineet Maloo: Against which a debt of...?

G.R.K. Prasad: Then you have to also factor the cash that we realized by sale of a part of stake of Navabharat Power Private Limited that is lying in one of the subsidiaries.

Vineet Maloo: That is ` 80 crore right?

G.R.K. Prasad: ` 84 crore.

Vineet Malu: We have ` 350 crore of debt?

G.R.K. Prasad: Including FCCB of `140 crore.

Vineet Maloo: What will be your total diluted equity at the moment?

G.R.K. Prasad: At the moment it is 7.7 crore shares i.e. about 15.5 crore, but if you consider the entire FCCB to be converted, then I think it is 18 crore i.e. 9 crore shares of Rs.2/- each.

Vineet Maloo: Thank you very much.

Moderator: Thank you. The next question is from the line of Puneet Chokhani from Enam. Please go ahead.

Puneet Chokhani: Good afternoon, Sir. I have more of strategy question as such, I just wanted to understand, I mean the first ventured into Indonesia then we moved on to Zambia, now we are moving to Laos. Our balance sheet is extremely strong and I just want to understand whether are we doing this consciously, moving abroad? Is it such that the return on investment abroad is going to be better or you know there is not enough opportunity in India on its own. What is the plan going forward and internally as a business, what are we looking at say five years down the line?

Vikram Prasad: See, one thing is as far as Laos and Zambia go. In Zambia, we find that there is a lot of opportunity in African zone, where we have control over the raw materials of coal in that area and another, it is a growing country where there is a lot of demand for power, merchant power, and the rates are very attractive. As we have seen the prices in India currently and been seeing the past too that the prices of merchant rates are not going to be like this forever, because many people coming in with the imported coal and putting up power projects and everything, so, consciously only, we have been going into these countries where they have opened up for power development in these areas and that is the reason we have got into Laos and to Zambia.

Laos, of course, you know, is what is called as green project. With all the coal that we are burning at some point or rather we would like to have something in this area too and it seemed to have a very attractive PLF factor of almost 50% and the work has been done by a Japanese company, which, we found was very effective. So this is being done very consciously only as far as these projects go. We would like to be little more diversified than be concentrating all our units in one place itself and if you look at it, environmental clearances and other issues in our country right now have become very, very rigid and we do not know when they are going to dilute on these things. I think that is one of the reasons. It is being done very, consciously.

Puneet Chokhani: Sure. Sir are we like sort of looking at entering now even new geographies or are we still are evaluating projects even at this point of time to get into or is it just that if we get an opportunity, take it as it comes?

Vikram Prasad: Where, in the country or outside the country?

Puneet Chokhani: Outside the country?

Vikram Prasad: Outside the country, we are looking at other projects; it is East African and Southern African region.

Puneet Chokhani: Sure. And what about India?

Vikram Prasad: In India if it is attached with some coal mine or something like that. Nowadays the mines they are talking about. Getting an environmental clearance for almost 50% of them is impossible. The mine, which we have taken in Zambia I would like to once again clarify that the proven reserves are more than 130 million tonnes, which for a project in Zambia, which is almost one-third the size of our country, has a lot of potential.

Puneet Chokhani: Sir just one more question, pertaining to Zambia, we were expecting to mine something. I know there was some delay in the CPP, but what is the situation now? In terms of ground reality in Zambia are we mining anything when are we are planning to mine?

Vikram Prasad: Actually, we have ordered for a totally new coal processing plant, CPP which we are likely to get in the next nine months and once that comes we will start mining and selling the coal to the neighboring countries and within Zambia. What right now we are selling is what is being extracted and which is of a little lower grade because it is mixed with the overburden and to be washed. So, we expect some sales on that but for which I would not be able to give a concrete figure, but definitely are looking at that aspect.

Puneet Chokhani: But are we mining any coal at this point. Are you selling any coal at this point?

Vikram Prasad: We are not mining. We have obtained separation under VRS, 80% of the labour that have been there. We want to totally mechanize this and outsource mining and have a proper mining plan for this particular area. That is in the process of being done, and even as you know mining is being outsourced in Africa and the chances of our outsourcing too are there.

Puneet Chokhani: Sure. At this point, we are not mining but are we selling anything, I mean the low-grade coal also in and around?

Vikram Prasad: Yes, we are in the process of selling. We are selling it and we may start doing this from in the couple of months, which we are already working on it.

Puneet Chokhani: Because that was supposed to happen in September, which is, delayed right?

Vikram Prasad: It is because we had what you call voluntary retirement for the labour and everyone we have sent out almost, all these things are being sorted out and they were doing everything manually, loading into trucks etc. Now we are mechanizing them with dumpers etc. We have placed the order for the dumpers and once they come, then we will be able to work on it.

Puneet Chokhani: Lastly I mean as you said in a couple of months you will probably be dispatching a little bit here and there in terms of Zambia, can you quantify, I mean how much are we expecting to start selling, I mean whatever little quantity you are mentioning I mean once everything is mechanized, what sort of quantity are you looking to start off with this, what I am trying to understand?

G.R.K. Prasad: The quantity that Mr. Vikram was talking about relates to the existing dumps that the coal mine has. These dumps relate to the high-grade coal fines as well as the low-grade coal. The high-grade coal fines are being sold and those dumps are estimated in the region of about

200,000 tonnes. So we could say in the next few months our target would be to see that these are liquidated.

Puneet Chokhani: Okay fair enough that's what I wanted to know, thanks.

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

Ravi Purohit: Good afternoon gentlemen, I have a couple of questions, one is in a few years whatever investments that we have made, we have made those with a target of about 20%-30% kind of ROE, would the new hydropower project also fall into the same category? What is your internal target for the ROE that is envisaged from this project?

G.R.K. Prasad: Well our threshold return on equity remains at 25%. The hydropower project will fetch at least that if not more.

Ravi Purohit: Can you repeat the cash balance; I just missed on the consolidated books. How much is it?

G.R.K. Prasad: We have cash in Nava Bharat books of about ` 570 crore and we have about ` 90 crore lying in Singapore, I mean it is realized but it is there in Singapore. Total put together is about ` 660 crore.

Ravi Purohit: And this is apart from the ` 80 crore?

G.R.K. Prasad: That is right, that ` 84 crore has been realized on sale of shares minus, of course, the tax element.

Ravi Purohit: When are you expected to get the second tranche?

Vikram Prasad: The second tranche payment is tagged to Essar achieving the financial closure for the power plant and some project milestones.

Ravi Purohit: When do you think this will happen?

G.R.K. Prasad: Probably this year, otherwise early next year.

Ravi Purohit: Thanks a lot.

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

Shankar: Hi, good afternoon. I just wanted a couple of clarifications for whatever you have said earlier. One is that if you look at most of the private sector generators, developers who have announced the results so far, all of them have guided for a merchant sale in Q2 of roughly around ` 5 per unit, so while you are saying that you have been able to garner something like ` 4.3 per unit in Q2, is it a state specific phenomena or are you under some kind of section 11 kind of an obligation only to sell to them at a predetermined rate at a discount to the prevailing merchant rates. What has happened exactly?

G.R.K. Prasad: I am surprised Shankar about people who have made gross realization on an average ` 5 per unit in this particular area excepting the generators that are in Tamil Nadu. If you exclude that, I do not think that was the rate being obtained. In Tamil Nadu, there was a restriction that TNEB was not allowing the local generators to sell outside and even before the monsoon set in, so they agreed for a rate, which is probably in the region of about ` 5+ per unit. So that rate I think continues, but for that I do not think any other area actually has fixed more than ` 4.50 per unit.

Shankar: So your sale has been entirely to A.P. or a lot of other states also?

G.R.K. Prasad: Not necessarily to AP. We were selling even to Tamil Nadu too. What Tamil Nadu was doing was, it was making a point of delivered cost so is the case every utility now that delivered cost is being factored at about ` 4.50 per unit.

Shankar: So you are selling to both Orissa, AP especially for merchant you are selling to all your neighboring states?

G.R.K. Prasad: Yes and also outside to Rajasthan, we are actually going to other states also.

Shankar: Sir, the second thing which I would like for you to throw some light on which you mentioned about this kind of an SEB financials getting strained and they are doing both demand side management also, can you throw some more light on this, what exactly is giving you to be such cautious on them. Well this has been an issue for decades and why do you see that this has a matter of concern right now?

G.R.K. Prasad: Shankar, to be very honest with you I think we need to actually factor that utilities cannot sustain power purchase above a certain rate, I think you need to read that with the particular context. We are not saying utility per se do not like purchase merchant power do not, but purchase of power, let us say, on a sustainable basis at ` 5 per unit perhaps is not on. So with that perspective, I made the statement. Buying for ` 5 per unit and giving it away for ` 1 per unit may not be feasible forever.

Shankar: Sir, I totally understand that, I just wanted to know are you already seeing a lot of guys doing this demand side management and also consciously doing load shedding instead of buying merchant power and this is a phenomena that you have noticed only in Q2, it was not there in the past, that is what you are trying to say?

G.R.K. Prasad: Because in Q2 they have been enabled by hydropower generation. The hydropower generation, if you recall has not sustained as is the case for the last three months every year because it was erratic, it was volatile I would say. So, most of the utilities are required to buy power even in those periods also. Now we have absolutely different scenario being obtained because of this monsoon and high degree of hydropower generation, otherwise I have not seen a situation wherein October rains are happening so much and as a result the demand is being reduced in addition to the demand management. So I would say 2010 is more of an aberration.

Shankar: Okay now on the listing of Singapore subsidiary are you doing it largely for tax reasons rather than actual requirement of funds?

G.R.K. Prasad: One to get that international recognition since a company which is from India is not being perceived as much as a company outside. That is one of the reasons. Second thing is if

you see bulk of our investment is happening outside India particularly in Africa and Far East and we would like investors to have intrinsic knowledge in those areas. That knowledge if it is obtained from an Indian investor, so be it, we are open to getting Indian investors on Board, but essentially what we felt was perhaps the foreign arm of the Indian investors would be the right kind of an investor we are looking at, rather than India centric Indian investor.

Shankar: So does the foreign subsidiary require so much of money that is the reason you are doing it or you largely doing it for basically doing a pure play on an over seas asset and to get much more diversified or rather the tax reason itself. Because, under DTC what we have been given to understand an SPV without having an operational asset might be fully taxed in India?

G.R.K. Prasad: You have a point there as well, I agree, it is not the money that is required urgently, which is driving us, one is to get an international recognition of the investment foray and of course incidentally we should also get the benefits under DTC.

Shankar: That subsidiary will continue to own both coal as well as power assets, so are you trying to bifurcate even that? In that overseas company will you have both the assets and only one asset?

G.R.K. Prasad: It will drive both the assets, but that of course is an interesting question. We are in fact talking to few advisors on this particular aspect. I cannot say whether we would do a bifurcation, but if the investor is comfortable to be there with both coal and power, we would welcome that.

Shankar: Lastly Sir just to have a small numeric stuff, in your bifurcation of equity infusion into Zambia, you guided in fiscal 2011, USD 25 million, and fiscal 2012-2013, USD 50 million each, our earlier discussion you have highlighted that?

G.R.K. Prasad: Let me correct that. Our requirement is about USD 110 million so that USD 110 million will actually get distributed over three years, USD 25 million, USD 50 million and balance whatever.

Shankar: Okay that is what because I thought your overall commitment was USD 131 million and you have already done USD 27 million so that largely leaves anything yet to be done because it incorporates at entire liability. Okay that is all from my side Sir, thank you.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: About one of the plant in India is running on imported coal is that still running the same way on imported coal and what is the cost of production in that particular plant?

G.R.K. Prasad: It is still running. It is a small plant of 20 MW. We have a contract for sale of power from this plant up to March 2011; the current cost of generation is about ` 3.20 per unit.

Sunil Jain: We are selling at what price Sir?

G.R.K. Prasad: It fetches about ` 4.20 per unit.

Sunil Jain: Sir second question about your Zambia project, there, I think you are putting some coal processing plant, what is the status of that and when are you starting the production in full swing in that particular mine?

G.R.K. Prasad: This coal handling and processing plant is ordered on a very large South African Company called ELB Engineering Services. That company will set up this plant in a modular fashion by May 2011, so probably give a month or two; July 2011 onwards we would do the washing of high grade coal and start selling that coal.

Sunil Jain: What will be the monthly run rate in that thereafter?

G.R.K. Prasad: 50,000 tonnes.

Sunil Jain: Which can be scaled up further?

G.R.K. Prasad: It can go up to 100,000 tonnes.

Sunil Jain: Third question is regarding the ferrochrome prices, you had said realization right now is at around ` 65,000 per tonne, is there any improvement that has happened in last one or two months on that?

G.R.K. Prasad: There is very marginal improvement, in fact the price has spiked a little in between to about ` 69,000 per tonne then came down to ` 65,000 per tonne. Earlier, it was around ` 62,000 per tonne.

Sunil Jain: The marginal increase has happened and nothing more?

G.R.K. Prasad: Very marginal but not giving us comfort to start production.

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

Amit Golechha: I just wanted to clarify this merchant realization of ` 4.37 per unit, which you said includes the GRIDCO sale at ` 3 per unit?

G.R.K. Prasad: On an average yes.

Amit Golechha: You also said that there is about ` 0.32 per unit of short-term open access charges is there that is what I believe. Could you just brief us some on the workings of basically how the short-term open access charges is levied, is it on the difference?

G.R.K. Prasad: It is determined by each state and by the local regulator and as far as power grid is concerned by the CERC on an annual basis. So these charges are fixed on a very transparent basis like per megawatt what is the kind of charge, sometimes it is denominated a megawatt per month and sometimes it is designated as per unit, and on top of it there will be transmission losses as well which would also be factored in that.

Amit Golechha: So out of ` 0.32 per unit how much would be transmission losses if it is possible for you?

G.R.K. Prasad: Roughly about ` 0.09 per unit.

Amit Golechha: Secondly, you said that in Zambia you have laid off 80% of your work force, would it be possible for you to quantify the expenses or the cost obligations that you have now against this?

G.R.K. Prasad: We had invested about USD 26 million as shareholder loan into the Zambian entity when it was started, out of that we spent about USD 10 million to do this voluntary earlier separation scheme.

Amit Golechha: So this takes care of 80%?

G.R.K. Prasad: It effectively reduces the workforce to about 20% to what it was prevailing before we took over.

Amit Golechha: Okay Sir, thanks a lot.

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

Vikram Prasad: Thank you for going through all the details and I hope you all are satisfied with the clarifications that have been given by Mr. Prasad and we hope to do better. Monsoons are good for the country but it looks like it didn't do us too much good and we hope that it will be, if you look at in the overall perspective this could be one of special year as Mr. Prasad has already mentioned earlier. If you have any further clarification I think there were a couple of questions were you needed some clarification, you are always welcome to come to us and get the clarification. Thank you very much.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen on behalf of Nava Bharat Ventures that concludes this conference call, thank you for joining us and you may now disconnect your lines.

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