



Nava Bharat Ventures Limited Q2 FY12 Results

Investor/Analyst Conference Call Transcript

November 1, 2011

Moderator Ladies and gentlemen good day and welcome to the Nava Bharat Ventures Limited Q2FY12 Results Conference Call. As a reminder, for the duration of this conference all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you sir.

Siddharth Rangnekar. Good morning everyone and thank you for joining us on Nava Bharat Q2 & H1 FY12 conference call. We have on the call today Mr. P.Trivikrama Prasad – Managing Director and Mr. G.R.K. Prasad – Executive Director along with Mr. P.J.V. Sarma – Director and Mr. M.N. Rao – GM Finance. The call will start with MrPrasad making his opening remarks and we shall then have an opportunity for asking questions. I would now like to call upon Mr. Vikram Prasad to share his views.

Vikram Prasad Good morning everyone and thank you for joining us today. I trust you had by now a chance to pursue our quarterly results. I will start by taking you through the key updates on our international ventures and how we are shaping up. After this I will bring you up on domestic business segments during the quarter under review.

Our international business – our plans for Zambia are firmly underway, the revival of the coal mine has commenced with the process of removing soft and hard overburden from the upper seams and bench preparation. We expect that the high-grade coal extraction will commence by December this year, pending the operationalisation of the CHPP at the location.

We have also concluded the execution of vital project documents like Power Purchase Agreement, Implementation Agreement and Development and Connection Agreement with Government of Zambia and its agencies

for implementing the proposed 300 MW power plant. We are at present, undertaking a detailed study on the feasibility of the hydel power project at Laos. Post this study results, we will be in a position to develop the operating and financial metrics of the project.

In Indonesia, we have signed the agreement to transfer 80% of the mining rights to new set of partners and expect to trade in this coal from the end of the current financial year. Under this contract, we get an offtake agreement for about a million tons of coal per annum. This arrangement will ensure fuel security for the power generation in India, and the second part is, we get back whatever money that we have put in earlier in this coal concession.

Power business: We are hopeful that the power business benefits from an improvement in merchant power realization going forward. One of the recent developments, which is heartening, is that the state utilities seem poised to gradually increasing the tariffs to meet higher cost of power purchase, to cut their distribution losses and to achieve cost reflective tariffs over a period of time.

We expect Orissa 64 MW plant to start contribution within the financial year with expected receipt of pending clearances and augment our generation volumes.

Ferro alloys business –Manganese alloys continue to be a key growth driver with production of about 20,000 tons this quarter, we are seeing slight increase in the margins as the ore prices have come down.

We are also pleased to announce that our agreement with Tata Steel for conversion of Ferro-Chrome resulted in maiden production this month and will give a decent contribution to the company's Ferro Alloys operations.

Sugar business – The operations meanwhile, remain under pressure due to expected decline in the availability of cane. The outlook is however, comfortable given paucity of sugar in the international market and that the exports have been made feasible.

With that I have covered most of the important topics and I would like to request the moderator to open the session for question and answers. Thank you.

Moderator

Thank you very much sir. We will now begin the question-and-answer session. Participants who wish to ask a question may press '*' and '1' on their touch-tone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets only while asking a question. We have the first question from the line of Sumangal Nevatia from Macquarie, please go ahead.

Sumangal Nevatia

I just wanted to know the coal production ramp-up schedule in Zambia?

- G.R.K. Prasad** Coal extraction has commenced and we expect to have coal extraction of about 200,000 tons happening this year and probably 600,000 tons of sales next year and 1 million tons of sale following year onwards
- Sumangal Nevatia** Okay and sir what will be the end use of this?
- G.R.K. Prasad** This is a metallurgical grade coal with GCV of 6,200 kilo calorie which will be used by cement companies, breweries and copper companies.
- Sumangal Nevatia** Okay and sir for the power business in India if you can give some details about the merchant tie ups which we have?
- G.R.K. Prasad** We have contracts for the next two months on a spot basis which yield about Rs.4.00 per unit and from January onwards, the rates are much better. We expect the second half to yield about Rs.4.20 to 4.25 per unit on an average.
- Sumangal Nevatia** Okay and sir for how long we have tied up this capacity, for the next one year?
- G.R.K. Prasad** This is up to May 2012
- Moderator** Thank you. The next question is from the line of Vijayakumar from Spark Capital, please go ahead.
- Vijayakumar** What is the mix of the coal procured in the quarter vis-à-vis e-auction coal and coal from Singareni?
- G.R.K. Prasad** Singareni went through some turbulence because of Telangana agitation so we had lower supplies coming from Singareni. In fact that has affected the generations in Q3 in October also. The mix of the coal is mostly with the same old pattern because of the stock that we had in the plant. The pattern, is more or less similar to what it was earlier excepting for the generation loss.
- Vijayakumar** Okay, then that is due to unplanned shutdown?
- G.R.K. Prasad** This is because of Telangana agitation.
- Vijayakumar** But has it improved now or is it the same?
- G.R.K. Prasad** Now, the agitation has been called off, the supplies have resumed, we expect to be back in full generation from mid November.
- Vijayakumar** Is it fair for me to say that at least for two months during the third quarter we will be operating normally?
- G.R.K. Prasad** Yes, about so.
- Vijayakumar** And on merchant realization for the quarter I am back working and I am getting about Rs. 3.40 per unit gross, is that right for Q2 FY12?

- G.R.K. Prasad** Rs 3.30.
- Vijayakumar** Rs 3.30 okay, fine, that is gross, you are telling?
- G.R.K. Prasad** Well, that is Rs 3.29 the realization which we made.
- Vijayakumar** I think that will be net, okay Rs 3.3. And what you were telling Rs 4–4.2 for the next 4-5 months, is gross?
- G.R.K. Prasad** Rs 4.20 is the average for the six months period commencing from October to March, from January onwards the rates are close to 4.5.
- Vijayakumar** What is the nature of this foreign exchange fluctuation that spiked in this quarter?
- G.R.K. Prasad** Well, it is to some extent one time charge because of redemption of FCCBs which took place in September, where the company had to take a hit of about Rs. 7.00 crore and the balance is net on account of foreign currency borrowings and export earnings.
- Vijayakumar** Okay, which exports?
- G.R.K. Prasad** Ferro alloys.
- Vijayakumar** The currency movement was quite drastic during this quarter, but if currency maintains at same level there will not be any foreign exchange fluctuation in subsequent quarters, correct me, if I am wrong?
- G.R.K. Prasad** In fact, we may have probably very marginal fluctuations going forward.
- Vijayakumar** And sir, in your press release I happen to notice mention about Paloncha 150 MW again being revived. Can you throw some light on that?
- M.N.Rao** 150 MW in Paloncha is under construction.
- Moderator** Thank you. We have the next question from the line of Sanjeev Panda from Sharekhan, please go ahead.
- Sanjeev Panda** Sir, first the Ferro alloy business realizations were almost same to what we have seen in the last quarter and same quarter in last year. But the EBITA is much higher. Could you throw some light on how the outlook is with respect to silico manganese? How is it shaping up?
- Vikram Prasad** Yes, that is mainly on account fall in prices of raw material, that is one of the reasons for increase in margins, otherwise, the prices are the same. And as far as the future goes, things can change fast in Ferro alloy business, for the time being everything seems to be going as per our plan and as far as Ferro Chrome market goes we are doing conversion for Tatas. So we are not going to be affected by the price in the market. We are only doing this for Tatas for the next couple of years. Because of fluctuations in chromite ore, we find that this seems to be a better situation for the Ferro Chrome business in Orissa.

- Sanjeev Panda** Then what is the target that we can look for the volume terms for the whole year?
- G.R.K. Prasad** We expect Manganese Alloys to be about 55,000 tons and 25,000 tons of ferro chrome conversion for the whole year. Between the two it is about 80,000 tons.
- Sanjeev Panda** I know there are issues with coal supply, there are issues with shut down but what are the other things that went wrong with power this time, volume remains there only but the profitability if we look at there is nothing really. So, could you throw some light going forward how is it shaping up? Or this kind of trend that we are seeing is just an aberration or it is going to be the trend indicating towards the future?
- G.R.K. Prasad** I think you need to look into three factors, which are absolutely external to the company. One is merchant power realization, which, of course, is an industry phenomenon. The second is the turbine overhaul which took place both in AP unit as well as in Orissa unit, starting off in Q1 and spreading to Q2 to some extent, it is more of a phenomenon occurring every three years, and to that extent I would put that as a kind of aberration only. And the third factor, which is very important is the foreign currency fluctuations, because of FCCB charge as well as the foreign currency loans..
- Sanjeev Panda** So, is it that sir, the foreign currency fluctuation were charged entirely to the Power division?
- Vikram Prasad** Because the loans are sourced for the power.
- Sanjeev Panda** If you would say in this quarter, say we have a realization of 3.60 and what is the cost that we have for the generation?
- P J V Sarma** The cost of generation now on an average including interest depreciation is approximately Rs.2.60 but for the H2 if you look at the cost for generation is about 2.55 in AP and Rs. 2.65 in Orissa, we expect it to be around 2.60 on an average between AP and Orissa. But again as Mr. GRK was just now mentioning if you remove these three distinctive features, in Q2 the Forex fluctuations and the turbine overhaul, the production, is very much on expected lines. . We feel that as far as merchant power prices are concerned the worst is behind us and feel that the trend is basically emerging out and till May of next year our monthly contracts are on increasing trend, say between Rs. 4.00 and s. 4.70 and even in some cases Rs. 4.80. The coal prices increased in Q2 for the past couple of months which is slightly beyond our expectations which has contributed for the reduction in the profitability as well.
- Sanjeev Panda** I understand all the three-four factors are putting pressure on power business, but if I just add this foreign currency fluctuation that has gone wrong inversely into the EBITA of power space, even in that case, as the margins are much depressed. So is this something that the trend is going to be there or you feel that there is just an aberration that could reverse within the next couple of quarters?

- Vikram Prasad** That is what we are trying to explain, the aberration in terms of the Forex fluctuations will not be there to the same extent in the Q3 and Q4. The coal prices, are definitely going to be at much higher and the generation is definitely is going to be normal for balance, five months in the current year, plus 64 MW of Orissa is going to be operational at least in two months., So that is going to increase the generation, to the extent it will get included in the profitability.
- Sanjeev Panda** What is the average coal price we are procuring at?
- M N Rao** The average coal price is approximately Rs.1,800 per ton.
- Sanjeev Panda** On the Zambian coal business we learned that there is quite a good progress and also in terms of volume?
- Vikram Prasad** Zambian coal mines have got two grades of coal; one is high grade coal which we are planning to sell from Q4 is of GCV 6,000 plus and is metallurgical coal.
- Sanjeev Panda** The high grade coal realization we can sense in the range of?
- M.N.Rao** US\$65 per ton.
- Sanjeev Panda** Could you tell me your FCCB position as of now?
- Vikram Prasad** The entire FCCBs have got extinguished during the current year.
- Sanjeev Panda** So, now you are free of that completely?
- Vikram Prasad** Yes, completely, so overhang is not there.
- Sanjeev Panda** And could you please explain the Indonesian issue which you shared or Can you just throw a little more light?
- P.J.V Sarma** The original structure has been disbanded and now we have sold our 80% stake to a new partner and as per that we will continue to maintain a minority stake of 20% in the venture We have got approximately a million tons of assured off take and we can use it for our plant or even sell outside in the market. We expect definitely an increase of profitability for the Singapore subsidiary.
- Sanjeev Panda** But as per the Indonesian government's new regulation everything that is sold or exported should be in the benchmark price? Is it not?
- P J V Sarma** I understand so, when we want to sell it in the market. we can sell it to the market, that is partly we can use it to the extent whatever is required, and balance we can sell it in the market.
- G.R.K. Prasad** We are talking about is a low-to-medium grade coal, the benchmark price and the price with which we operate is more or less same.
- Sanjeev Panda** Is it somewhere around GCV4,000 to 5,000 in that range?

- G.R.K. Prasad** Yes, it is about GCV4,500.
- Sanjeev Panda** Okay and sir when it will start?
- G.R.K. Prasad** They have actually initiated the mine take over and extraction should commence from January. This is our expectation and we are hoping that during a part of the year we will get this coal.
- Moderator** Thank you. The next question is from the line of Amit Golchha from Emkay Global, please go ahead.
- Amit Golchha** Could you let us know that in case of Ferro alloys, the Ferro Chrome supply which you are doing to Tata Steel was for how many months in this quarter, when it had started?
- M N Rao** Ferro Chrome operations have started during this month and we expect five months of operations during this financial year.
- Amit Golchha** In Q2 the Ferro Chrome sales which is there that has sold to Tata Steel.
- M N Rao** No, that was from our production and not of TATA steel.
- Amit Golchha** And in case of Forex loss which is there of Rs.120 million, how much is attributable to FCCB, and how much is to the other debt?
- M N Rao** We had a combination of FCCBs and debt, between these two, it was about Rs. 19.00 crore and we had an earning of about Rs. 7.00 crore on exports, the net effect is Rs. 12.00 crore.
- Amit Golchha** But the debt which is there in the books, apart from FCCBs the debt is related to the new project, if I am correct?
- M N Rao** No, It is for the operating plant
- Amit Golchha** Yes, if I calculate the cost of generation in this quarter is about Rs.3 per unit.
- G.R.K. Prasad** Yes, it actually translates to about Rs. 2.60 per unit on an average, which includes the Forex charge as well.
- Amit Golchha** Okay and in case of the power plants, the PLF is at about 82% if I am not wrong?
- M N Rao** **You are** Correct.
- Amit Golchha** So, it is better than the last quarter. how much of the PLF you would have lost for forced outages?
- M N Rao** It would have been close to 90% otherwise
- Amit Golchha** So 8% is loss because of that?

- M N Rao** Yes. We have been maintaining PLF of about 90%, so there is no reason why we would not sustain that kind of levels.
- Moderator** Thank you. The next question is from the line of Shankar Hirdesai from Edelweiss Securities, please go ahead.
- Shankar** Once again, this time we noticed that if you look at your stock in trade, it has gone up significantly between the two quarters, both sequentially as well as year-on-year. So first of all is this entirely stock in trade got to do with the power business or the Ferro Alloys business?
- Vikram Prasad** This one is of Ferro Alloys business.
- Shankar** But you just said that because you have just unwound all our historical thing, that is already getting reflected in better realization for Ferro Alloys or better margin from Ferro Alloys, because if you notice the revenue has not gone up so significantly as your earnings have. So the cost has been broadly the same, the output has been the same, it has to be old raw materials what you would have utilized. But the jump in the stock is very significant?
- G.R.K. Prasad** But the inventories have actually come down.
- Shankar** Yes, so that is exactly the point, it would not necessarily have been the Ferro Alloys, it would have largely been of coal or for the power business?
- G.R.K. Prasad** As a company we maintain the stock levels for two to three months in normal course. As far as manganese ore is concerned similar stocking is followed. So the aberration you are pointing out is more on account of moving average cost of stock which actually tapered down.
- Shankar** So, is it fair enough to assume that because this is largely a raw material cost which you have already blocked in as an inventory, and the benefits of the same on the margin subsequently in the subsequent quarters will be a much better because the cost has already been booked?
- G.R.K. Prasad** Yes, you are right, as far as Ferro Alloys go, we are definitely looking at better margins.
- Shankar** Yes, then is it not fair enough to say that your profits are reduced to the extent by around Rs. 10 to 12 crore because of this jump in the inventory?
- G.R.K. Prasad** Well, I do not think we can put an absolute number because of the higher cost of ore, but it is also a fact that going forward the Ferro Alloys, especially Manganese Alloys will realize better margins on account of this lower cost.
- Shankar** Will you be in a position to divulge the financial details with respect to the commercial agreement with Tata Steel?
- G.R.K. Prasad** No, we are subjected to some confidentiality, we cannot disclose, excepting one factor, where the power for this conversion is transferred at the rate decided by OERC through tariff order from time to time.

- Shankar** Let me ask you in a sense of what is that are you going to supply to them? A fixed quantity of Ferro Alloys or are you going to get a fixed cost of recovery and whatever they want you will just process it and give it, what is the kind of an agreement that you have with them?
- G.R.K. Prasad** It is actually tolling arrangement, they supply the ore and lam coke being reductant, we convert them in to Ferro Chrome for them.
- Shankar** So, but are they guaranteeing you a minimum amount of quantity that they will pick up every year?
- G.R.K. Prasad** Yes, because the consumption pattern is fairly constant, let us say utilization of about 25 to 26 MW for conversion and the annual output would be about 55,000 tons.
- Shankar** Okay so basically that is the way we can model, we can assume 55,000 tons as being supplied to them and you will consume 26 MW of captive power for them, for each you will get power transfer price and apart from this you will get some kind of a fixed cost recovery, which is like the tolling cost, is that you are saying?
- G.R.K. Prasad** **Benefit due to transfer price of power** will be reflected in the Power division, but as far as Ferro Alloys division is concerned the positive part is that fixed cost will be completely absorbed and we could fairly be given some kind of a return on investment, but at this point of time we are not making any assessment of that.
- Shankar** Now coming on to the comment made by the Chairman in the press release, you are saying that you have signed a Power Purchase Agreement an Implementation Agreement in Zambia, can you divulge some details about the same in Zambia?
- Vikram Prasad** In view of confidentiality agreement being there it is difficult to mention, but I think it gives a very good return .
- Shankar** First of all is it a regulated tariff to continue, even though you have signed a PPA?
- G.R.K. Prasad** It is a regulated one, and the tariff has gone through the regulatory process.
- Shankar** Yes, so now the point is, will you still await Capex approval by the regulator over there or that has been already done?
- G.R.K. Prasad** It has already been obtained.
- Shankar** So, we can safely assume that whatever CapEx that you are going to incur over there are based on the equity component of that you will get an ROE, it is a very similar to India, it is not ROCE and it is ROE?
- G.R.K. Prasad** We are talking about probably an ROE on a 20-year basis.
- Shankar** I am saying but at least it is ROE and not ROCE?

- G.R.K. Prasad** No, it is ROE.
- Shankar** And the last thing is on the FCCB, just wanted to have a further clarification. Now, as far as the bond conversion is concerned, it was okay whatever you booked via P&L some portion of that has to be notional and some portion of it is actual, am I right in saying that?
- G.R.K. Prasad** It is effectively on account of 29 bonds which got redeemed so the only charge that was done is on account of redemption, as far as conversion goes it is more like an extinguishment of debt
- Shankar** Okay, so that you did not route via P&L then?
- G.R.K. Prasad** Yes.
- Shankar** So, whatever you have routed via P&L it is safe enough to assume that everything has been incurred, because you have to redeem at higher cost?
- G.R.K. Prasad** That is right, that is about Rs. 7.00 crore, which is accounted for.
- Shankar** Okay, now it is surprising, you said last time you have the right to exercise FCCBs fully, then how come these 29 bond got redeemed, was there an option for that?
- G.R.K. Prasad** Well, we issued a mandatory conversion of FCCBs, it was limited to the shareholder holding not more than 14.5% of the equity, so the balance was left unconverted.
- Thank you. The next question is from the line of V K Karthikeyan from Suyash Advisors, please go ahead.
- V K Karthikeyan** Two questions; one related to the Orissa project, the last time you spoke about environmental clearance being more or less there, so what is the current status?
- Vikram Prasad** Well, we are awaiting formal notification and that we cannot move ahead without that.
- V K Karthikeyan** Any sense of time line is involved?
- Vikram Prasad** Yes, it has been pending for some time there is a change in the Ministry and now we have a new Minister. It is not in our control, this is something and the way things are moving, hopefully soon we should get..
- V K Karthikeyan** No, I thought okay. The other question I had was that slightly we move timelines ahead to the next year, give us a break-up of coal sourcing you do for the entire 299 MW, I am saying 234 existing plus 64 of the Orissa unit, would you be able to share with us break-up of coal that you source and what kind of cost could be incurred over there?
- G.R.K. Prasad** The average cost has been about Rs. 1800 per ton as per the existing operating plan, excepting the 20 MW power plant.

And for the 64MW it would be a combination of coal through e-auction and washery rejects but we expect the costs to be little higher probably Rs.2,000 per ton.

Vikram Prasad The e-auction coal is fairly volatile in terms of prices and we do not know what exactly is happening, sometimes the prices go much higher than almost 50% of the prices, so that keeps changing, we can't give a number and stick to that number.

V K Karthikeyan And in terms of linkages, have you seen consistency in terms of supplies or has there been disruption there also? I am not talking about the Telangana agitation issues, but are you seeing consistency in terms of supplies or are there challenges on that side also?

Vikram Prasad It is very consistent, Andhra they are quite consistent, and it is only this last 45 days that we have got severely affected i.e Total stoppage which due to Telangana agitation.

V K Karthikeyan What is the receivable situation from the customers, how is that playing out on the power side?

M. N. Rao Excepting for some receivables from GRIDCO of about Rs. 20 crore, we do not have any problem on account of receivables.

V K Karthikeyan So far you have not faced any challenges and who would be your counterparty sir, would it be the trader or would it be the utility where you sell merchant power through traders?

G.R.K. Prasad We have been using the traders for the same reason you have just expressed.

Moderator Thank you. The next question is from the line of Subhabrata Mitra from Jet Age Securities, please go ahead.

Subhabrata Mitra Just want to understand the power and fuel charges actually have increased from say Rs. 56 crore to Rs. 74 crore, this is mainly for the coal cost?

Vikram Prasad Yes.

Moderator Thank you. We have the next question from the line of Sumangal Nevatia from Macquarie, please go ahead.

Sumangal Nevatia Can you repeat the expected COD of Paloncha 150 MW plant?

M N Rao It is Q4 of FY13.

Sumangal Nevatia When we say that we have tied merchant capacity, have we also tied up for the Orissa 64 MW?

Vikram Prasad No.

- Sumangal Nevatia** So that will be done in fourth quarter, somewhere in fourth quarter FY12?
- Vikram Prasad** As and when we start generation. It looks like January onwards rates are looking up definitely better than what they are now.
- Sumangal Nevatia** Am I right in saying that we are selling close to 80% of the capacity merchant and 20% is used in captive?
- G.R.K. Prasad** Yes, you are correct taking into consideration the generation capacity of the company as a whole we use 35% for captive.
- Moderator** Thank you. The next question is from the line of Sanjeev Zarbade from Kotak Securities, please go ahead.
- Sanjeev Zarbade** Wanted to know the viability of imported coal based plant at coast at the current merchant power rates and the way coal prices are there in Indonesian. How do you see the viability of such projects?
- Vikram Prasad** I guess, utilities are beginning to pay a higher price, I mean even small plant like ours which is a coastal based, we have almost kept it idle for the last three months as the prices are not attractive. Probably in the fourth quarter there is a demand for this and we would be able to get the price that we would require. **Sanjeev Zarbade.** What could be the variable cost per unit for a plant located in Andhra Pradesh and the coast based on imported coal, roughly?
- Vikram Prasad** I think it is around Rs.2.80 and I am talking about a plant in the region of about 150 MW.
- Moderator** Thank you. We have the next question from the line of Amit Golchha from Emkay Global, please go ahead.
- Amit Golchha** I just missed the rate at which you were going to transfer power for Ferro Chrome.
- M N Rao** It will be as per OERC tariff and move along with that tariff.
- Amit Golchha** And sir in case of your current captive transfer, the current rate is about Rs.2.80 per unit, what is the basis of this transfer price?
- M N Rao** That is on A.P where the grid tariff is lower.
- Amit Golchha** Okay, the industrial rate in A.P.
- M N Rao** Yes and most of the production corresponds to only A.P.
- Amit Golchha** So in case of A.P. is the initial tariffs about Rs.2.8 per unit?
- M N Rao** Rs.2.8 per unit yes.

- Amit Golchha** There is a tax advantage in case of power and if your transfer price is higher, in some quarter it has been higher and some quarters it has been lower.
- G.R.K. Prasad** Yes, unfortunately we cannot move away from the grid tariffs because of the transfer pricing restriction but A.P. is set to increase the tariff because there is a proposal which is pending before the regulatory commission, in which case, the transfer price in A.P. could go up.
- Amit Golchha** Okay and how much is the MAT credit as of now available to you?
- M N Rao** It is about Rs. 140 crore.
- We will be using it because the 50 MW power unit has come out of tax holiday. So that will be subjected to regular tax and as we see better profitability in Ferro Alloys I expect the MAT credit to be used.
- Amit Golchha** This quarter also we had some profit from the Ferro Alloys business but the use was very limited or very low. So when the Ferro Alloys profit increases? the use of this will be there?
- G.R.K. Prasad** Yes, that is right.
- Amit Golchha** Okay sir, that is it from my side, all the best.
- G.R.K. Prasad** Thank you.
- Moderator** Thank you. We have the next question from the line of Nikhil Salvi from IDFC Securities, please go ahead.
- Nikhil Salvi** I am referring to your notes to accounts of the results. Point No. 4C, transitional deferred tax originated during tax holiday period being recognized over four quarters. Could you please explain which power unit has been referred to and what exactly is this treatment?
- G.R.K. Prasad** It actually corresponds to 50 MW power plant, that came out of tax holiday, we are given to understand that we may recognize over the four quarters. And since it is coming out of the tax holiday, the transitional process will be available.
- Nikhil Salvi** So that is the reason why in this quarter there is a higher deferred tax?
- Nikhil Salvi** In the Zambian coal company, is the accounting for low grade coal decided, how it will be done?
- Vikram Prasad** Yes, operations have commenced so we will take cognizance of the quantity of low grade coal that has been extracted and possibly ascribe a value to that at the end of the year.
- Nikhil Salvi** Is there any tax benefit due to accumulated losses in Zambia and whether they will be availed off as and when the coal segment makes profits?

- Vikram Prasad** We have a tax benefit by way of carry forward losses, we expect in the next four years, the subsidiary company to be tax free on account of that.
- Nikhil Salvi** Okay, sir, thank you.
- Moderator** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Prasad for closing comments.
- Vikram Prasad** Thank you for participating in this question-and-answer session and hopefully our performance for the next quarter would be better but there would be slight carry forward of the effect of Telangana agitation in this current quarter October, but I think from November-December it should be settling down if there are no further agitations in this matter and thank you for participating once again.
- Moderator** Thank you. On behalf of Nava Bharat Ventures Limited that concludes this conference. Thank you for joining us, you may now disconnect.

Further to the conference call with the investors held on 1st November, 2011, the following are some of the queries raised by the esteemed investors together with the comments of the Company thereon:

1. It was stated that cost of production of power was Rs. 2.6 per unit and realization for merchant sale was Rs. 3.3 per unit. Is this correct?

This is correct.

2. It was stated that realization for merchant sale is expected to be at Rs. 4.6 per unit for the remaining five months of this year. Is this correct?

As per the existing contracts, the average realization should work to about Rs 4.20 per unit.

3. It was stated that transfer price for Tata Steel for Ferro Chrome production will be at Rs. 4.8 per unit. Is this correct ? How many MW will be transferred at this price this year and how many next year ?

Transfer price of Rs. 4.80 per unit is correct. 25 MW of power per month will be transferred at transfer price, for conversion of full month operation.

4. What is the expected Ferro Chrome production in tons for Tata Steel per year ? What is the conversion price to be paid to NBV per ton ?

Expected ferro chrome production for full year of operation is about 55,000 tons. The conversion price covers the fixed over heads of the ferro alloys plant in ORISSA and agreed transfer price for power will be paid by Tata Steel.

5. It was stated that transfer price for 55000 tons of of Ferro Manganese to be produced by NBV this year is Rs. 2.60 per unit. Why is this transfer price so low compared to Tata Steel thus ignoring the tax benefits for the Power Plants ?

The transfer price for captive consumption of power is to be based on respective grid power tariff for manufacture of Ferro alloys in AP and Odisha . The Company reckons the overall margin in such captive consumption while drawing up production plan from time to time. The captive consumption should hence be not seen in isolation.

6. How many MW will be transferred for Ferro Manganese production this year at this low price ?

A minimum of 26 MW of power per month will be used for manufacturing silico/ferro managanese.

7. Considering that power realizations are going up to Rs. 4.8 per unit is it worth transferring power for Ferro Manganese production at Rs. 2.6 per unit ? Does Ferro Manganese give more profit than merchant sale of power ?

Please see the answer at point 5.

8. It was stated that the new 150 MW power plant at Paloncha is on track. What is the status on the abandoned 150 MW plant ?

The other 150 MW power project at Dharmavaram stands abandoned.

9. What is the cost of production and expected sales realization (net) per ton for the medium grade coal to be produced in Indonesia ?

As the mining operations have not yet started, we cannot give exact cost of mining and sales realisation per ton at this stage.

10. Considering that the current cost of coal used for power generation in India is Rs. 1,800/- per ton is it viable to use Indonesian coal as substitute ?

We are not anticipating to use Indonesian coal for power generation as a substitute. We would like to use the same for blending and for providing fuel security in case of exigency.

11. It was stated that no tax liability is expected for next four years due to accumulated losses in MCL. Can these losses be set off against profits made by NBV ?

As MCL is a separate entity in Zambia, these losses cannot be set off against the profits made by NBV.

12. What is the cost of production and sales realization (net) for metallurgical (high grade) coal and thermal (low grade) coal respectively?

As the mining operations have not yet started, we cannot give exact cost of mining and sales realisation per ton of high grade and low grade coal at this stage.

13. What is the inventory of metallurgical and thermal coal at pit-head before commencement of coal production ? Will I be correct in presuming that there is an inventory of 200,000 tons of high grade coal and 2.5 million tons of low grade coal on the site as understood from the statements made by Mr. G.R.K. Prasad and Mr. P.J.V. Sarma respectively in earlier Conference Calls ?

The stock of thermal grade coal in the form of over burden in the mine area has been compacted ahead of mining operations. We cannot commit the quantum as MCL has historically not reckoned thermal grade coal with any value. Going forward the thermal grade coal and high Grade coal will, upon extraction and processing, be quantified for the purpose of inventory management.

14. There was no information shared by the Management on the SEZ Project at Shamshabad and the Real Estate Project at Nacharam. What is the current status on this front?

The SEZ Project is affected by the current realty meltdown in Hyderabad. Excepting for an incubation space of about 50000 sq.ft. which remained vacant, no development has taken place. The SPV has approached the Government for revision in time lines.

As regards the Nacharam Industrial Area, the Company has not taken up any project. Pending resolution of a Government demand for regularization under the erstwhile ULC Act, which was contested in the Hon'ble High Court of A.P., the Hon'ble Court passed interim orders of status quo.