



Nava Bharat Ventures Limited

Q4 FY13 Results Investor/Analyst Conference Call Transcript

May 28, 2013

Moderator Ladies and gentlemen, good day and welcome to the Nava Bharat Ventures Limited Annual Results Conference Call for Analysts and Investors. As a reminder, all participant 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. If you should need assistance during this conference call, please signal an operator by pressing * followed by 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you sir.

Siddharth Rangnekar Good afternoon and welcome to the Q4 FY 2013 Conference Call. We are joined on the call today by Mr. G. R. K. Prasad, Executive Director, Mr. T. Hari Babu, CFO, Mr. M. N. Rao, General Manager, Finance and Mr. P. J. V. Sarma, Director of strategy and planning. The call will commence with observations from Mr. Prasad that will be followed by an opportunity to post questions to the Management. I would now like to call upon Mr. Prasad to share his views.

G. R. K. Prasad Good afternoon everyone. I trust you have had the opportunity to browse through our press release as well as the result. We have during the interactions with the investors gathered the areas that require clarity in this call. First I would like to delve on the salient points in the operations and investments.

- The 150 MW power plant of Nava Bharat Energy India, the subsidiary company, was commissioned by end February and made trial runs during March. The notable achievement is that the project was commissioned on schedule and within the estimated cost, inclusive of the 200 kV DC Transmission system for about 70 kms. The Unit has since gone on commercial stream, selling power to the AP Grid.
- The Zambian company has marginally ramped up the high grade coal sales with the sales volume, projected at about 300,000 in FY2014.
- The Zambian power project construction is at a brisk pace with targeted commissioning in Q3 of FY 2015.
- Financial closure for debt finance of about US \$ 560 Million is expected by end October 2013, considering the present status of credit processes by DFIs and Banks from Africa and elsewhere.

- The restructuring of operations in Odisha works was necessitated on account of regulatory changes affecting the supply of ore for Ferro chrome conversion and distinctly un-remunerative merchant power model coupled with transmission constraints with surplus power from captive units and the new 64 MW remaining stranded. The Company would evaluate various options, valuations and then decide on the proposed equity dilution in favour of Strategic Investors.
- Meanwhile the Ferro chrome conversion for Tata Steel is likely to resume from July following favourable court judgments facilitating movement of ore for conversion and surplus power from the power units will be dispatched under merchant route to the extent feasible.
- The dependency on imported coal for power generation will be markedly higher in future in view of the incremental power generation though for the older plants linkage coal and coal through e-auctions and washery rejects would suffice the fuel requirements.
- Even on imported coal front also, we have taken some advance action and obtained delivery which would suffice the next 4 months of requirement or so.
- Coming back to the queries on the numbers for the quarters effective 2013 and the consolidated figures, there is an enquiry on the increase in other current liabilities in the consolidated figures which predominantly relate to debt funds raised at the Singapore Subsidiary level for making equity investments in step down subsidiaries and part of rupee term loans, falling due in the next one year. Some of these liabilities will be absorbed by long term project finance and some will be liquidated during the course of operations in FY 2014. The Company stood to gain by way of small arbitrage with this funds planning while certain funds were required to meet the additional equity commitments, pending debt finance releases, especially in Zambia.
- The operational deficit in Zambian coal operations of about US \$ 10 Million in addition to the value of coal inventory, is in the nature of mine development expenditure which would have been capitalized in a new mine owing its enduring affect. However, since Maamba Collieries Limited, Zambia has been in existence for several years, that accounting treatment is not allowed. MCL is however to prevail upon the lenders to consider this as part of project cost to obtain long term finance.
- The additional tax provision at the year end and Quarter 4 end pertained to assessed tax for the previous years following retrospective amendments in the inventory valuation norms the orders for which were made and accounted at the year end.
- The exceptional item of expenditure in the consolidated accounts pertains to previous indirect expenditure such as that incurred for due diligence for the acquisition of controlling interests in SPVs, written off as per Singapore GAPP.

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

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| Moderator | We have the first question from the line of Mohit Kumar from IDFC Securities. |
| Mohit Kumar | Can you clarify how much was the revenue which came from the Zambian operation by selling high grade coal? |
| G. R. K. Prasad | There was a sale of high grade coal. In the year, it was about 100,000 tonnes which translated into marginal revenue. |

Mohit Kumar How much inventory is lying down in terms of high grade coal and in terms of overhead expense over and above of what you have?

G. R. K. Prasad The value of inventory which was confined to thermal grade coal and a small quantum of high grade coal at the year end was about \$27 million which translated to about 1.3 million tonnes of coal.

Mohit Kumar Both our power plants in Odisha and Andhra Pradesh are connected to respective state grids, am I correct?

G. R. K. Prasad That is right.

Mohit Kumar Have you rolled over the entire contract at Andhra Pradesh, have you entered into a new contract of 150 MW?

G. R. K. Prasad For the period up to May, the contracts have been concluded for the entire power in AP which extends from the older plants i.e 114 MW, the 20 MW. Beyond May the new contracts have also been signed.

Mohit Kumar Have you sold anything from the 150 MW power plant in this quarter?

G. R. K. Prasad In the current quarter, yes.

Moderator We have the next question from the line of Vaibhav Bharadia from Violet Arch Securities.

Vaibhav Bharadia What was the average realization in the Odisha and AP plants?

M. N. Rao Average realization for the year is something around Rs. 4.39/unit, for company as a whole put together for all the units in AP as well as Orissa units.

Vaibhav Bharadia Can I get the other details separately?

M. N. Rao Yes.

Vaibhav Bharadia Currently the negotiation that you were saying that is going on for the 64 MW Odisha plant, which has been stalled as of now, what is currently the status of the negotiation?

G. R. K. Prasad 64 MW power plant is merchant power only there is no negotiation for sale of power from this new plant. I am talking about the old 64 MW. We have been selling power from this unit in open access. The rates hovered around Rs. 3.30/unit to Rs. 3.40/unit.

Vaibhav Bharadia You mentioned that you have been selling a part of it to GRIDCO, am I right?

G. R. K. Prasad That is right.

Vaibhav Bharadia Is that the target that you are telling me Rs. 3.30/unit to 3.40/unit?

G. R. K. Prasad No. The GRIDCO rate is slightly lower. It is about Rs. 2.75/unit.

Vaibhav Bharadia Have there been any payment delays from GRIDCO in the recent times?

M.N.Rao There were, but now the situation is resuming normalcy. We have of course, as of March about 3 months dues from GRIDCO.

Moderator We have the next question from the line of Ravindra Vashist form IDFC Mutual Fund.

Ravindra Vashist Pertaining to the negotiations which are going on for Andhra Pradesh off-take of power. If I understood rightly, you said that, you have agreements till May 2013. What stage are we on in terms of negotiations and agreements for off-take of power beyond that and do you envisage a scenario where there may not be an off-take of power for lack of agreements?

G. R. K. Prasad Well, we have got the contracts executed for the balance period as well up to May 2014 from 1ST June onwards. Also we have got the contract for the surplus power in AP. That is from 114 MW which is about 62 MW and we have a contract for 18 MW from the Dharmavaram unit and then we have a contract for the 150 MW also for the same period.

Ravindra Vashist And this is all with Andhra Pradesh or you are selling with some other state?

G. R. K. Prasad All are with the AP Grid.

Ravindra Vashist What is the indicative pricing? Net realization?

G. R. K. Prasad Net of charges, net of rebates, it should come to about Rs. 5.25/unit.

Ravindra Vashist You said that the total sale which has happened for the high grade coal in Zambia in last year is 100,000 tonnes. I missed the average realization?

G. R. K. Prasad Please do not make an average realization comparison because we were testing the markets with various rates in Zambia. Sometimes more fines were going and now we have sales of high grade coal like Peas and Nuts to a small extent. I do not think the average numbers correspond to the actual realization which is happening now.

Ravindra Vashist During the last call, you had mentioned that there is some slow down in the economy in Zambia and adjoining areas and that is where you are seeing the slowdown in the off-take of the high grade coal as well. So, has the situation improved or still remains the same?

G. R. K. Prasad The slowdown was the reason where we had to scale down the sale projection. Some of the large customers' projects have been delayed. Hence the sales volume which was projected at around 600,000 tonnes was reduced. So those projects are being implemented now but we expect the situation to become somewhat conducive by 2014 - 2015. So, that is why this year we are projecting probably better than what we did last year at about 300,000 tonnes.

Ravindra Vashist What you are saying is essentially that hopefully if the Odisha problem is sorted for us for the new plant as well as for the existing plant, FY14 hopefully should be a better year because one in terms of realization, the realization for the whole year seems to be better from Andhra Pradesh. We have another 150 MW in operations for the whole year now and hopefully the Zambian operations in terms of the losses would be better than what we did in FY13. Is that understanding right?

G. R. K. Prasad I think yes. I think the situation would look better.

Ravindra Vashist Wanted to understand the terms of arrangement for imported coal that we have done for the year, what is the pricing that we have got?

G. R. K. Prasad We are importing from Indonesia as well as from South Africa, It is a blend which would cost us around Rs.4000 per ton, delivered to us.

Ravindra Vashist And the GCV would be about 4000 for this?

G. R. K. Prasad I think it comes to about 4000.

Moderator We have the next question from the line of Karthikeyan V K from Suyesh Advisors.

Karthikeyan You spoke about Rs.5. 25 paise average realizations currently. If you have to enter into a contract on a longer term basis, would these prices be realizable? What do you think is the reasonable estimate of prices?

G. R. K. Prasad The situation would continue around these rates probably because of the deficits, especially in South.

Karthikeyan For the 150 MW, when does the contract begin from a tenure perspective?

G. R. K. Prasad Contracts are already on.

Karthikeyan And does it expire in May next year?

G. R. K. Prasad Yes that is right.

Karthikeyan Are they buying it on a 1 year basis or was it that you decided to sell on a 1 year basis? I am just trying to understand how the SEB is approaching the situation?

G. R. K. Prasad They have asked for a particular plan which is less than 1 year.

Karthikeyan Any visibility for a longer term contract currently in AP itself?

G. R. K. Prasad No.

Karthikeyan If you had to enter into a longer term contract for imported coal what kind of prices can you source? Could you give some sense of that?

G. R. K. Prasad Actually the coal contracts are sort of long term on the quantity side, not on the price. I do not think anybody is putting a firm number for a longer period.

Karthikeyan On a FOB basis, what prices would you have contracted the coal from Indonesia and South Africa?

G. R. K. Prasad Actually we have not contracted on FOB basis, but delivered price basis. So, we are not procuring from the miners, but we have gone to traders..

Karthikeyan And these are Indian traders?

G. R. K. Prasad Yes.

Karthikeyan Is the exchange risk is borne by the trader himself?

G. R. K. Prasad No. Exchange risk lies on the company only.

Moderator We have the next question from the line of Anup Kulkarni from Emkay Global.

Anup Kulkarni We have been saying that we are planning to tie up power in long term contracts. Did we bid in Tamil Nadu contract?

G. R. K. Prasad Yes.

Anup Kulkarni So, I suppose we are not only L1 there?

G. R. K. Prasad No we are not.

Anup Kulkarni Did we bid in UP as well?

G. R. K. Prasad No. We did bid in Haryana.

Anup Kulkarni What is the status of the Haryana bid right now?

G. R. K. Prasad Those rates are going to be long term rates, we have seen those rates, i.e delivered rates which are very low. So, I do not think that is an opportunity which we should pursue immediately.

Anup Kulkarni As of now, will you be keeping this power in the short term only?

G. R. K. Prasad Yes.

Anup Kulkarni Can explain the status of the Zambian operations, in terms of funding – how much we have invested till date? And how much we need in terms of the equity and debt? Can give a brief on the funding requirements that are there?

P. J. V. Sarma The total cost of the project has been assured at about \$800 million. This \$800 million includes for coal mine revamping, capital expenditure and also includes the coal mine development expenditure. That is why which was originally at \$750 million has gone to \$800 million. This \$800 million is going to be funded by a 70-30 basis from international financial institutions. So, this \$800 million translates to a debt of around \$560 million and equity of \$240 million. This \$240 million of equity is going to be funded on 65:35 basis from us as well ZCCM. So, our equity requirement comes to 65% of \$160 million and balance is from ZCCM. As of now, we have completed the coal mine revamping, and we have started mining from the past 1 year.

As you have been seeing in the report, we have started coal mining both in low grade and high grade. Now, total spent is around \$190 million which has been incurred in the project, which has been funded by way of a loans borrowed at the Maamba Collieries Limited of \$60 million from international banks against the corporate guarantees of the parent as well as the ZCCM. The balance \$130 million is brought in by Nava Bharat as well as ZCCM on a proportionate basis. Partly by way of direct equity and partly by way of subordinated shareholder loans. That is how the whole thing is funded.

Anup Kulkarni Is the subordinate debt is in the books of Zambian authority, not in the books of Nava Bharat?

P. J. V. Sarma Not Zambian authority in the books of the project company as share holders' loan.

Anup Kulkarni Will this be converted to equity later?

P. J. V. Sarma It will be converted to equity. The total is \$240 million. On a 65-35 basis, it will be brought in by Nava Bharat Singapore, and ZCCM

Anup Kulkarni And this 190 million, it is the total spent money?

P. J. V. Sarma Yes, this 190 million is the amount spent as on date for rehabilitation of coal mine, funding the operating deficits and advances and amount spent on EPC of the power plant etc.,.

Anup Kulkarni So, in terms of projects, have you not got any disbursements of the project debt?

P. J. V. Sarma The financial closure will be at the end of October 2013. But we have got indications as to where we are going today. It is a combination of loans from development financial institutions from Africa, like the African Development Bank, and one more development bank and a part of the funding is going to come from ECA funding from China backed by a couple of Chinese banks. But it is a combination of funding which is around 30% from DFIs from Africa and around 40-45% funding from Chinese banks backed by the ECA. All the loans that have been agreed, in principle, the due diligence process is going on. Letters of intent /interest has been received for the entire debt. But the due diligence procedure is going on. Probably, in a couple of months, the credit approvals will happen and after that we will need a couple of months for documentation and authorization. By the end of October, there will be a formal financial closure.

Anup Kulkarni Is \$800 million an escalation in cost, I think earlier the cost was \$750 million.

P. J. V. Sarma \$750 million has gone up by another \$50 million because the extra money has come from the premium that is required to be paid to the ECA agency. That also is allowed as expenditure. That is about \$20- \$25 million. Plus balance is the coal mine development expenditure which is also included in the cost. That is why earlier we were talking about \$750 million, and now it is \$800 million.

Anup Kulkarni Out of this \$800 million, \$240 million is equity, what you have said. So, this \$240 million equity would be taken into your PPA as the regulated equity?

P. J. V. Sarma Yes, You are correct.

Anup Kulkarni So, coal mine will not have any separate expenditure for this?

P. J. V. Sarma No, this \$800 million includes the coal mine expenditure.

Anup Kulkarni Will this coal mine CAPEX also, will be included as part of the PPA regulated equity?

P. J. V. Sarma The PPA relates to Power Project and related equity only

Anup Kulkarni The high grade coal sale which you will be doing, that will be not be having any fixed cost as such because the fixed cost will be loaded into your power project, is that correct?

P. J. V. Sarma The costs of coal mining and power generation will be distinct and need to be addressed by each division out of its operations.

Moderator We have the next follow up question from the line of Mohit Kumar from IDFC Securities.

Mohit Kumar How much is the debt on the books of MCL?

P. J. V. Sarma \$60 million is the debt sitting on Maamba Collieries books.

Mohit Kumar And how much is now at Singapore?

P. J. V. Sarma It is \$44 million.

Mohit Kumar What is the loss at EBITDA level From Maamba Collieries Limited?

P. J. V. Sarma At this stage the High grade coal sales yield marginal contribution and so the EBITDA is positive with valuing the coal inventory at cost.

Mohit Kumar How much was the operational expenditure?

P. J. V. Sarma We will give it offline.

Mohit Kumar You spoke you are thinking of diluting around some 20% stake by forming SPVs. Am I right in the sense, what is the plan?

P. J. V. Sarma What are you talking about?

Mohit Kumar In the press release, there was mention of the formation of SPV?

G. R. K. Prasad At this point of time, the Board cleared the idea of restructuring in principle. The scheme of restructuring and the process of obtaining the required approvals are being looked at. The idea is to bring the strategic investor so that both the ferrochrome operations and the power plant operations can happen at their full operational capacities..

Moderator We have the next question from the line of Tanya Kothari from CD Equi Research.

Tanya Kothari How do you see the segmental mix going ahead for FY14 and what are the EBITDA margins for Power, Ferro, and Sugar?

G. R. K. Prasad I think the segmental ratios will be slightly shifting towards Power. The ferroalloys remain static with manganese and chrome operations happening at the same levels. But power could be slightly better. We expect the EBITDA margins in Power to be about 30% and in the Ferroalloys to remain at about 10%, Sugar looks slightly better but I am talking about an integrated sugar operation with the by-products and everything being included and there the EBITDA could be probably 20%.

Tanya Kothari What was the average realization for the ferro, I think there is a dip of 9% in realization. What is your outlook on Ferro Alloy segment?

G. R. K. Prasad The issue before us is one of a static forecast and we expect realization to hover around the same level during FY14.

Tanya Kothari Is that around Rs. 50,000/ tonne?

G. R. K. Prasad Around Rs. 54,000/ tonne.

Tanya Kothari What would be the average realization for Silico manganese?

G. R. K. Prasad Average realization last year was about Rs. 61,000/ tonne.

Tanya Kothari And This year?

G. R. K. Prasad This year we are expecting it to be about Rs. 55,000/ tonne.

Moderator As there are no further questions from the participants, I would now like to hand the floor back to Mr. Prasad for closing comments. Over to you, sir.

G. R. K. Prasad Thanks a lot everybody. It has been nice interacting with you all. We would respond offline to whatever queries that investors have on behalf of the Management team.

Moderator Thank you Sir. Ladies and gentlemen, on behalf of Nava Bharat Ventures Limited that concludes this conference call.