



Nava Bharat Ventures Limited

Q1 FY15 Earnings Conference Call Transcript

August 11, 2014 at 12:00 noon IST

Moderator Ladies and gentlemen good day and welcome to the Nava Bharat Ventures Limited Q1 FY15 Earnings Conference call. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your Touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar of CDR India. Thank you and over to you, sir.

Siddharth Rangnekar Good afternoon everyone and welcome to the Q1 FY15 Earnings Conference Call of Nava Bharat Ventures Limited. Today we have with us senior members of the management including Mr. G. R. K. Prasad – Executive Director; Mr. P. J. V. Sarma – Director; Mr. T. Hari Babu – CFO and Mr. M. N. Rao – VP, Finance.

We will begin the call with Mr. Prasad's views on the operating performance of the company and updates on the international initiatives undertaken by the group particularly in Zambia. This will be followed by question and answers where members of the audience can get their queries addressed.

A note of caution, some of the statements made or discussed on today's call could be forward looking in nature and the Company and the members of management do not undertake to update them publicly in light of changed circumstances.

At this stage, I would like to invite Mr. Prasad to share his views.

G R K. Prasad Thank you Siddharth. Good afternoon and a warm welcome to everyone.

I would like to summarize the key features of our results.

Total income has improved by 21.3% to ₹ 306.2 crore in Q1 FY15 on the back of volume growth in our power business.



EBITDA enhanced by 18.5% to ₹ 69.8 crore while the EBITDA margins stood stable at 22.8%. This was mainly on account of improved performance across all our business segments though Ferro alloys could have been slightly better.

Profit after tax recorded a growth of 11.9% Y-o-Y to ₹ 56.2 crore in line with the operating performance. Basic and diluted EPS stood at ₹ 6.34 per share.

Manganese Alloys saw improved traction in volumes with stable trend in realizations. As we see the way forward, our domestic power business would continue to be anchored by the visibility in the merchant power realisations. The units in our standalone business are backed by a mix of coal linkage, washery rejects and coal from e-Auction while the subsidiary that is Nava Bharat Energy India Limited is predominantly being fed by imported coal. Following a favorable change in the economic environment, the merchant power dynamics and overall pricing look stable especially in the Southern region.

The Ferro Chrome conversion arrangement was impacted by the mining renewal impediment faced by Tata Steel, following which the company had to resort to own production of Ferro chrome as a short gap arrangement. This of course is not a very feasible solution on a long term basis. Hence, the Company plans to switch over to production of manganese alloys in the Odisha works as well, to obtain the same kind of economics as would have been derived by conversion arrangement which is the recovery of fixed cost fully and value addition for power through transfer price for captive consumption.

One development which is noteworthy to share is that the new 64 MW unit has now been cleared by Government of India to use domestic coal which would bring competitiveness in the cost of generation. We are now pursuing with the Government of Odisha to conclude the MoU as soon as possible and start generation of power for merchant sale from this unit hopefully from second half of this year, we should be in a position to generate power and resort to merchant power sale against which the realizations look slightly better as compared to last year.

The Company's sugar business is being driven by the integrated business model which looks stable at this point of time though the price of sugar still remains lower than the comfortable level.

The Company's Zambian project has reached good traction in terms of physical progress which is currently standing at about 65%. There has been a delay in obtaining the long term debt finance for this project which is on account of several factors principally emanating from an external point of view of the currency regulations in Zambia, and a very lengthy process in obtaining ECA financing from China.

We expect the financial closure for this debt finance of US\$ 560 million to be done in the next few months and following this; we expect the project implementation to gain further momentum. At this point of time, our target is commissioning of the power plant(150 MW x 2) in Q3 2016 and we expect at least one unit to become operational little ahead of that and the power plant to reach stable operations immediately thereafter given our good experience in running a similar 150 MW unit in India.



Our other overseas projects in Tanzania and Laos are at this point of time still in the clearance mode. We are pursuing various project clearances like concession agreement and other formalities in Laos whereas, as far as Tanzanian project is concerned it is at the early stage of land allocation by the Government. At this point of time no investment commitments are made except for the clearances and we expect some clarity to emerge in these two projects probably by next quarter and the investment commitments would only be seen in the next financial year.

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

- Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Mohit Kumar of IDFC Securities. Please go ahead.
- Mohit Kumar** How much have we invested till date in the Zambian power plant in terms of equity and how much has been financed by debt, I guess we took some bridge financing?
- M N Rao** As on date we have invested close to US\$ 188 million from our Singapore subsidiary which includes a debt of US\$ 44 million raised in Singapore subsidiary. We have taken bridge finance of USD 115 million against project finance in the Zambian Subsidiary.
- Mohit Kumar** Okay, so we have got roughly around US\$ 140 million of equity?
- M N Rao** Equity infused through our subsidiary as on 30th June, 2014 was US\$ 147.60 million
- Mohit Kumar** Okay. And the PPA was supposed to start in 2014, so is there any cause of worry given that the power plant have been delayed by 9 months?
- M N Rao** There is no cause of worry on this front, as we have the required mutual understanding in the PPA with ZESCO to lift power upon commencement of commercial operations taking into account the delayed period.
- Mohit Kumar** Given that, the financial closure is getting delayed, how you are placed to meet the financing requirements for the next three to four months?
- M N Rao** As of now, most of the equity has been pumped in by Nava Bharat Singapore and our Zambian partner, the project progress of 65% has been achieved with current equity that has been infused so far. We have also availed bridge loans of US\$ 115 million from SCB & ICBC against the project finance. Hence, there may not be any major requirement of infusing funds in the project during the next three to four months.
- Mohit Kumar** And we have already closed a deal of US\$ 150 million with African Development Bank, are we trying to take the entire amount from China now or are we taking a part of that?
- M N Rao** We have not finalized that as yet, it is still under finalization.
- Mohit Kumar** Okay. And the bid of 2,000 MW has been called by Andhra Pradesh or by Telangana?

M N Rao It is by Telangana.

Mohit Kumar So, what is the start date of this 2,000 MW power purchase requirement?

M N Rao The start date for this power purchase requirement is from June 2015 and upto May 2016.

Mohit Kumar You said that you are not getting your due share of linkage. So how has the quantity of linkage coal dropped from same quarter last year?

M N Rao With regards to the linkage coal, there has been a slight drop in delivering linkage coal. For the shortfall, we are supplementing it with imported coal. For this quarter, for AP 114 MW Plants we used close to 1.97 lakh tons of Singareni Coal and around 14,000 tons of imported coal.

Mohit Kumar With regards to our Tata Steel conversion arrangement, is there any update which will help re-start the commercial arrangement?

M N Rao Tata Steel is trying for mining license. As of now, we are producing Ferro chrome of our own and also intend to produce manganese alloys from October this year.

Mohit Kumar What are the chances of commercial arrangement getting back on track by the end of next quarter or two?

M N Rao As of now, it is not that clear.

Moderator Thank you. Our next question is from Bharanidhar of Spark Capital. Please go ahead.

Bharanidhar Could you explain in detail the delay for the long term funding on Zambia because I thought the currency issue was resolved.

M N Rao The currency issue is resolved. My colleague Mr. P. J. V. Sarma would give you more details on long term funding for the project. He will join us in sometime. Meanwhile, you can go ahead with other questions.

Bharanidhar Okay. I wanted some clarity on the split of 228 MW in our standalone business between merchant, grid and captive. I understand that 30 MW in Odisha is under the Tata Steel conversion arrangement, is that right?

M N Rao Yes, 30 MW in Odisha is used as captive for conversion of ferro chrome, now the same is being sold under merchant after using a part for our own production of Ferro Chrome.

Bharanidhar So the 30 MW is also sold under merchant?

M N Rao Yes, we are selling a part quantity after meeting production of ferro chrome under merchant,

Bharanidhar And what about the arrangement at Paloncha plant. How much is under merchant sales and how much is for captive?

M N Rao In Paloncha, we have 114 MW out of which 60 MW is merchant and the rest 50 MW after auxiliary consumption is used for captive production of manganese alloys. However, 20 MW in Dharmavaram is totally merchant.

Bharanidhar And coming to the new 64 MW power plant at Odisha, what is the plan there as to how much will go for GRIDCO and how much outside. Also what will be the indicative tariffs?

M N Rao We have recently obtained the environmental clearance for using domestic coal and are yet to enter into an MoU with the Government of Odisha. This being an IPP, we may have to sell 12% of power generated under MoU and the balance can be sold on merchant.

Bharanidhar Okay. And the indicated total cost is close to ₹ 4.8 per unit from this particular plant? That is when it was envisaged to use this plant?

M N Rao Yes, if we use imported coal, but if we use indigenous coal than the cost comes down almost by Re. 1 per unit.

Bharanidhar So the total cost would be close to ₹ 3.8 to ₹ 4 per unit?

M N Rao It would be between ₹ 3.5 to ₹ 3.8 per unit.

Bharanidhar And what will be the GRIDCO rates right now in Odisha?

M N Rao GRIDCO rates right now is only ₹ 2.75 per unit.

Bharanidhar And what will be the coal arrangement here, since the Government has agreed for you to use linkage coal? How much will be the linkage coal and where would it come from?

M N Rao Coal arrangement is mainly from e-Auctions, as our unit is situated within 40 to 45 kilometers radius of Mahanadi Coalfields. So, we will obtain e-Auction coal and a bit of imported coal. Earlier we were to use only imported coal but now that impediment is not there. We can have a proper coal mix to run the plant. With that mix, we can run the plant keeping in mind the realisation on sale of power.

Bharanidhar So from the second half of this year, the MoU and all will be finalized and we would be producing at a reasonably good PLF and we would be selling power?

M N Rao Yes. We are targeting for the same.

Bharanidhar Yes, at a cost of close to ₹ 3.5 to ₹ 4 per unit?

M N Rao Exactly.

Bharanidhar And coming to the 150 MW plant, what would be the profits in that plant in this quarter?

M N Rao The profit after tax of this plant is ₹ 27.50 crores for the first quarter.

Bharanidhar And we have a short-term PPA with AP till what time and at what rates?

M N Rao Upto May 2015 and the rate is close to ₹ 5.20 per unit.

Bharanidhar And could you answer the earlier question on Zambia?

M N Rao Yes, my colleague Mr. Sarma will answer.

PJV Sarma Could you please repeat your question on Zambia?

Bharanidhar What is exactly the reason behind the delay?

PJV Sarma One important reason is on account of statutory instrument of 33 which was brought in by the Zambian Government about 1.5 years back which made all the important documents including commercial agreements to be put in Zambian Kwacha instead of Dollars. As we have been mentioning, our power purchase agreements have been denominated in dollars and hence our revenue is going to be in dollars, so we were not supposed to have any fluctuation with any aberrations because of these fluctuations.

But due to this instrument, there are lot of concerns from the international lenders because our entire loans were to be drawn in dollars and the repayments also was to be done in dollars. So if we would have revenues in Zambian Kwacha than it would have affected us very badly. Hence, we had to make a lot of representations to the Government of Zambia. Not only have ours, but quite a few international projects where international financing was there, the lenders were having concerns. But after lot of thoughts, the Government of Zambia has agreed to remove that particular provision. So we are reverted to the position of dollars now. So that itself took almost one-and-half years to get that thing repealed. Until then I think the concerns from lenders were from the applicability point of view. Now that is behind us.

Second problem was that these Chinese banks took quite a bit of time than what was usually contemplated. Now we are going to have two distinctive sets of financing, one is the developmental financial institutions and two or three DFIs are going to provide to the extent of almost US\$ 200 million. The balance of almost 60% of the funding is coming through couple of Chinese banks and African Banks which are backed by insurance from Sinasure which is China Export & Insurance Corporation which is basically the ECA funding from China. So we are going to have around two-thirds against ECA Cover and close to US\$ 200 million coming from DFIs.

There have been some questions that although AfDB has sanctioned US\$ 150 million than why financial closure has still not achieved. This is because both the DFI loans and loans from commercial Banks against ECA cover should be closed to achieve financial closure. I hope it is clear. but if you want any further clarifications than please tell me.

Bharanidhar So 65% of the CAPEX is done by now and most of the equity from Nava Bharat has come. So the remaining CAPEX is about US\$ 280 million. So would this come in the next one year and this money would be coming from Nava Bharat directly?



NAVA BHARAT

PJV Sarma As explained earlier, we and our Zambian partner have already put in close to US\$ 240 million and we have also taken a bridge loan of around US\$ 115 million from participating project financing banks, SCB and ICBC Bank. So this is adequate to meet the balance expenditure till financial closure. Once the financial closure comes, the money will start coming in from the lenders.

Bharanidhar When is the financial closure expected?

PJV Sarma It will be in a few months from now.. As you are aware unlike our Indian project financing, there the project financing is quite complicated and very cumbersome comprising very detailed work. They will have to do, after tying up, r the document negotiation and all will take a few months.

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

Vineet Maloo For the 64 MW power plant in Odisha, we have approvals and we can start the plant, so do we have adequate evacuation infrastructure in place? Will we be able to sell it to other states?

M N Rao Yes, sufficient evacuation infrastructure is available.

Vineet Maloo To be able to transfer them to other states, because a lot of large IPP's are facing this issue from Odisha that they are not able to sell because they have evacuation constraints.

M N Rao Evacuation constraints are there. However, we are selling power to other states from our existing 94 MW.

Vineet Maloo No, overall incremental?

M N Rao Yes, incremental as well we can sell. It is not very large, out of 64 MW around 10% goes for auxiliary and 12% to the local grid, the balance will be very less. This quantity is definitely not large.

Vineet Maloo So we will not get any linkage coal on this, right?

M N Rao We will not get any linkage coal but we can get e-Auction coal. Earlier the impediment was, we cannot use any domestic coal. Now any domestic coal can be used.

Vineet Maloo When did this approval come through and how long will it take to actually get the plant on line?

M N Rao It has come very recently, a week back.

Vineet Maloo So how long before we get it up and running?

M N Rao We expect to start from H2 2015 onwards.

Vineet Maloo So there are still some steps left is it?

M N Rao We have to enter into MoU with the local government. That is the only thing left.

Vineet Maloo And the currency issues with Zambia stands resolved? Are we going to get everything in dollars or have the bankers relented?

M N Rao That is sorted out by the Zambian Government itself. Whatever statutory Instrument they have issued got repealed. Now that particular problem is not there.

Vineet Maloo Okay, so we will receive revenues in dollars, right?

M N Rao Yes, we will receive revenue in dollars only.

Moderator Thank you. Our next question is from Mohit Kumar of IDFC Securities. Please go ahead.

Mohit Kumar Can you please share the Revenue, EBITDA and PAT figures for Nava Bharat Energy Limited?

M N Rao For Nava Bharat Energy, we have profit after tax of ₹ 27.5 crore against the revenue of ₹ 151.40 crore.

Mohit Kumar And do you have the EBITDA numbers?

M N Rao EBITDA number is not readily available at present.

Mohit Kumar How much has been put in by our Zambian partner in the power plant project?

M N Rao They have already infused close to US\$ 80 million.

Mohit Kumar This is pure equity?

M N Rao Yes equity with a minor portion as shareholders' Loan.

Mohit Kumar How much was the coal production and sales for the quarter from the Zambian mines?

M N Rao Coal production was close to 60,000 tons of high grade coal.

Mohit Kumar And what is the sales number?

M N Rao Sales during the first quarter was around 40,000 tons.

Mohit Kumar So production and sales numbers are equivalent?

M N Rao Production is around 60,000 tons.

Mohit Kumar And how much are you targeting for this year?

M N Rao For this year we are targeting between 250,000 to 300,000 tons of high grade coal sales.

Mohit Kumar And this is the sales volume that you are targeting or production?

M N Rao This is the sales volume that we are targeting.

Moderator That was the last question, I now hand the floor back to the management for closing comments.

G R K. Prasad Thank you everybody for your participation. Please revert in case there are any questions which remain unanswered. We would be happy to provide the answers. Thank you very much.

Moderator Thank you. On behalf of Nava Bharat Ventures Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

This is a transcription and may contain transcription errors. The Company or sender takes no responsibility for such errors, although an effort has been made to ensure high level of accuracy.