Nava Bharat Ventures Ltd.

Quick Small/Midcap Funda Momentum Picks

Medium to High risk

Key points:

- These picks are based on fundamentals and issued when momentum is seen in them. These stocks may not have enough liquidity and depth and may go from circuit to circuit (either up or down). In the interest of timeliness, detailed financial projections are not prepared.
- Small allocation of investible surplus may be put in such stocks and spread your surplus among several such stocks.
- Once the risk appetite in the market reduces, such stocks could face the pressure of selling irrespective of fundamentals or valuations.
- Entry and exit into these stocks have to be carefully timed.
- These stocks have inherent value in them and their expected rate of growth could be faster than their peers. Their current valuations may not reflect these and hence considering the current market conditions, a buy report has been issued.
- It is possible that the street may take time to recognize these or there may be adverse developments in the interim. Hence proper exit strategies have to be worked out in advance (that may include stoploss or trailing stoploss).

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HDFC securities

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Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Red flag level*	Time Horizon
Metal & Power	126.95	Buy in the Rs.121-127 band and add on dips to Rs 105	146	161	85	1- 2 quarters

*Investor may sell 60-65% of their holding on first target being achieved and later keep a stop loss of first target for balance holding, in case the second target takes time to be achieved. Investor may also maintain Rs.85 as red flag level below which investment position needs to be reviewed, including the possibility to exit

HDFC Scrip Code	NBVENTURE
BSE Code	513023
NSE Code	NBVENTURES
Bloomberg	NBVL IN
CMP Aug 02, 2021	124.5
Equity Capital (Rs cr)	29.6
Face Value (Re)	2.0
Equity Share O/S (cr)	14.8
Market Cap (Rs cr)	1840
Book Value (Rs)	200.0
Avg. 52 Wk Volumes	630609
52 Week High	128.55
52 Week Low	46.0

Share holding Pattern % (Jun, 2021)	
Promoters	49.1
Institutions	3.6
Non Institutions	47.3
Total	100.0

Retail Research Risk Rating:

		Red*

*** Refer at the end for explanation on Risk Ratings**

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Our Take:

Nava Bharat Ventures experienced recovery in operating performance of its ferro alloys division, on the back of improvement in both volume and realisations. Additionally, renewal of the ferro chrome conversion license with Tata Steel Mining Ltd (subsidiary of Tata Steel Ltd) till fiscal 2025, provides stable cashflow visibility. The Agreement postulates that the entire smelting capacity of the Odisha plant is dedicated to TSML to produce up to 70,000 metric tons of high carbon ferro chrome per annum. However, offtake from external power, including 150 MW capacity at Nava Bharat Energy India Ltd (NBEIL), was lower than expected due to lower demand on account of the pandemic. For FY22 we expect strong performance of its ferro alloys division, given the strong demand from steel sector coupled with high silico-manganese prices. The captive power capacity should continue to support profitability in the ferroalloy segment.

We hope that the arbitration approach on Maamba Collieries Ltd (MCL)'s receivables would solve the issue for the company. However, our view is constrained by cyclical nature in the ferroalloys and by fluctuations in power realisations and coal prices in NBEIL, and the significant investment in group entities, particularly MCL. NBVL has discontinued its sugar business at Samalkot, AP due to shortage of cane. It tried to sell the unit but the agreement was cancelled.

The company completed a buyback of 15,548,172 equity shares, amounting to Rs. 1,341 Mn and buy-back tax of Rs 250 Mn in Q4FY21.

Valuations & Recommendation:

Presently, the stock is available at reasonable price to earnings of 3.1x (FY23E EPS). With the improved operating performance of ferro alloy business, a long term contract with Tata steel provides decent cash flow visibility, arbitration route for solve MCL's receivables issue and healthy risk profile, we expect a healthy growth for FY22 and FY23.

We think NBVL can report a PAT of Rs.434 cr, EBITDA of Rs.986 cr and PAT of Rs.434 cr in FY23, due to the issues at MCL compensated partly by better performance in other businesses.

We think the Base case fair value of the stock is Rs 146 (5.0xFY23E EPS) and the bull case fair value of the stock is Rs 161 (5.5xFY23 EPS) over the next 2 quarters. Investors can buy the stock at the CMP (4.25xFY23E EPS) and add on dips to Rs.105 (3.6XFY23E EPS).

Financial Summary (Consolidated)

Particulars (Rs cr)	Q4FY21	Q4FY20	YoY-%	Q3FY21	QoQ-%	FY20	FY21	FY22E	FY23E
Total Operating Income	689	809	-14.9	660	4.3	2,759	2,549	1,911	2,294
EBITDA	256	238	7.5	273	-6.3	1,185	1,066	784	986
Depreciation	73	71	2.9	75	-2.5	289	300	306	309
Other Income	107	106	0.4	50	111.7	13	250	238	214
Interest Cost	78	74	5.2	78	0.2	319	348	296	311
Tax	52	13	282.9	9	500.9	60	117	106	146
APAT	134	143	-6.0	118	13.5	395	423	314	434
EPS (Rs)	8.59	8.11		6.72		24.1	26.0	21.1	29.2
RoE-%						9.4	9.6	6.7	9
P/E (x)						5.5	4.6	5.9	4.2
EV/EBITDA						4.5	3.9	2.4	1.9

(Source: screener.in, HDFC sec)

Triggers

High realisation and integrated ferro chrome operations

NBVL's 125,000-MTPA silico manganese manufacturing facility in Telangana is supported by a 114-MW captive power plant, while its 75,000 MTPA ferrochrome conversion facility in Orissa is supported by a 90-MW captive power plant. Both the power plants have e-auction/auction-linkages for coal, and sell excess power at the IEX exchange or under short-term PPAs.

NBVL's ferrochrome segment is a conversion business and is insulated from cyclicality to some extent. The contract with Tata Steel Mining Ltd has been extended till fiscal 2025, which provides cash flow visibility. In FY21 in the manganese alloy segment – the export was about 35% and domestic was 65%. Silico Manganese’s price are soared up from USD 785 on 4th August 2020 to USD 1295 on 30th July 2021 which evident of that ferroalloy realisation are very strong and heathy. At this point both export, as well as domestic prices, are very strong and we hope the situation would continue for the next couple of quarters at least. Profitability from ferroalloy segment is key driver for the company. High realisation and integrated operation may help the company to achieve better margin and profitability going forward.

Source: Steelmint, HDFC Research

Soared up prices in Ferro manganese

Product	Low	High	Latest	30-day	60-day	90-day	180-day	360-day
Ferro-manganese Mn 78%min, C 8%max Delivered Europe	-	-	-1.29%	-5.04%	-2.57%	0.61%	12.48%	38.79%
Ferro-manganese Mn 78%min, C 8%max In warehouse Pittsburgh	-	-	2.72%	3.20%	5.89%	8.22%	19.81%	41.91%
Ferro-manganese Mn 78%min, C 7%max In warehouse Russia	-	-	1.31%	4.22%	7.52%	11.85%	25.96%	43.53%

Source: asianmetal.com, HDFC Research

Power segment on the mend

NBVL has engaged with the local Power Utility in Odisha and has been able to resolve the long pending metering and connectivity issue of the 60MW IPP in Odisha pending disposal of the legal case before the Hon'ble High Court for final settlement. This paves way for operationalizing this 60 MW IPP, which remained idle for several years, from May- June 2021.

The 150 MW IPP of 100% subsidiary, Nava Bharat Energy India Limited, Telangana, which was shut down in FY 2021, has resumed power generation following improved merchant power market and is now exporting power through Power Exchange.
In Q4FY21, merchant outtake grew by 200% in the quarter especially from 90MW unit at Odisha

Arbitration approach to solve receivables issue

MCL’s receivables have been concern for NBVL. The management went through a dispute resolution process with the local utility. Presently, the matter is in the international arbitration in London. We believe this arbitration will close the issue with firm payment plan from the utility. This process is expected to come to an end in the second half of FY22. NBVL is expected to receive steady operations and maintenance income from MCL’s 300 MW power plant in Zambia.

Other triggers

NBVL is looking at monetizing some assets including land at Dharmavaram and land near Hyderabad. These process have been delayed due to the pandemic and ULC hearings. However these could soon be resolved.

Concern

Cyclical business of ferroalloys segment, volatile realisation in power and pricing coal in NBEIL

The ferroalloys segment, which is the main driver of NBVL's profitability, is susceptible to cyclicality in the steel industry. While the captive power for the ferroalloy business provides steadiness to cash flow, the power sales are exposed to PPA and offtake risks as witnessed in FY21. The 150-MW IPP in Nava Bharat Energy India Ltd (NBEIL) remains dependent on short-term PPAs and short-term energy markets for sale, in the absence of a long-term PPA. We have seen a volatiles power prices in IEX platform where company sales extra power. However, the company is looking to enter into a group captive arrangement which should improve visibility of cash flow. NBEIL has significant financial linkages with the parent, after NBVL took over its term debt obligation in fiscal 2019 by borrowing a similar amount and extending an inter-company loan to the company.

Cashflow concerns at MCL

NBVL, through its step down subsidiary MCL, has set up a 300-MW (two units of 150 MW each) power project and a coal handling and processing plant (CHPP) in Zambia for which MCL had aided debt of USD 590 million (around Rs 4,150 crore). Furthermore, the company invested about Rs 1,500 crore as equity/loans in MCL through Nava Bharat (Singapore) Pte Ltd (NBSPL). MCL's operating performance has been satisfactory. MCL has been facing a severe cash flow concern arising out of payment defaults of ZESCO against the power purchase from MCL.

As on FY21, gross receivables at MCL stood at $ 432 million (809 receivable days). The stuck receivables from ZESCO, a state owned power distribution Company in Zambia is key concern for the company. MCL is under discussion with lenders for restructuring the loans post tariff renegotiations with ZESCO. Though NBVL has started receiving O&M income from MCL, but company has not received any dividends from the investment in MCL so far. Given the non-recourse of the debt for the project and management's articulation of not providing support for debt servicing, we have not factored in any cash outflow from to MCL form the company. Any incremental investments in these entities, or any recourse to NBVL for the debt raised at these entities could have a significant bearing risk on NBVL's balancesheet.

MCL is in negotiations with ZESCO for tariff revision. There have been certain delays given that the Zambian election is scheduled for the month of August but those discussions are currently going on and the arbitration in London is also underway.

MCL during its mandatory major overhaul of two Power Units, in sequence in April 2021 noticed that certain critical parts of turbine in one Unit are damaged requiring replacement. In consultation with the Board of Directors of MCL, procurement of the required parts for replacement and additional spares from the OEM and other suppliers has been initiated. Owing to the long lead time in supply of these critical parts, MCL anticipates delay in resumption of normative operations, at present being run on one Unit only, resulting in reduction of envisaged revenues in FY 2021-22. In Q4FY21, addition of new customers and strong demand led to increased merchant coal sales, up by 222% YoY

Interest in many business and venturing in to foreign lands

NBVL has many subsidiaries and interests in too many businesses. Also its venturing into foreign lands has resulted a lot of hardships due to geo political and other reasons.

Company Background:

NBVL was incorporated in 1972 as Nava Bharat Ferro Alloys Ltd (Nava Bharat), which began operations in 1975 with a small ferrosilicon manufacturing unit in Paloncha, Andhra Pradesh. In 1997, it set up a second ferroalloy unit in Odisha. It diversified into coal-fired power generation in 1997 as backward integration for its highly power-intensive ferroalloy business, and later pursued the merchant power business for the surplus generation capacity. The company got its present name in 2006. In Paloncha, Telangana, with an installed capacity of 125,000 MTPA it manufactures Manganese alloys (Silico Manganese and High Carbon Ferro Manganese), which is sold to big and medium scale steel mills in India. It also exports to countries in Asia and Europe. In Kharagprasad, Odisha, with an installed capacity of 75,000 MTPA it has an exclusive conversion arrangement with Tata Steel Limited where Tata Steel provides it chrome ore and reductants for conversion purpose and it produces High Carbon Ferro chrome. The finished product is marketed by Tata Steel.

NBVL was promoted by Dr D Subba Rao and is managed by his son, Mr D Ashok, and son-in-law, Mr P Trivikrama Prasad. The company has two key business divisions: ferroalloys and power. It has installed ferroalloy capacity of 200,000 tonne per annum and power generation capacity of 422 MW. NBSPL was incorporated in 2004 to trade Nava Bharat's ferroalloy products, and later became the holding company for the group's overseas expansions. NBSPL acquired a 65% stake in MCL in Zambia. MCL set up a 300-MW coal-based power plant with 35% equity participation from an investment holding company of the Government of Zambia. Coal production commenced in fiscal 2013, and the power plant commenced operations in August 2017.

NBEIL, a step-down subsidiary of NBVL, operates a 150 MW merchant thermal power plant commissioned in February 2013 in Telangana.

Financial

Income Statement (Rs cr)	FY17	FY18	FY19	FY20	FY21
Sales	1350	2348	2946	2759	2549
Expenses	1177	1555	1589	1574	1483
EBITDA	174	793	1357	1185	1066
Other Income	148	69	39	13	250
Depreciation	90	228	276	289	300
EBIT	83	565	1081	896	766
Interest	72	246	362	319	348
Profit before tax	159	388	757	590	668
Tax	66	110	418	60	117
Net profit	87	238	276	395	423
EPS(Rs)	4.9	13.3	15.5	24.1	26.0

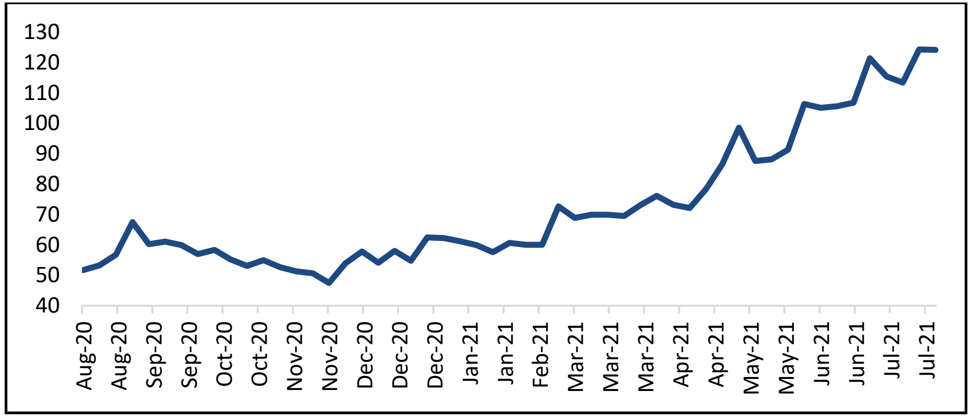
Balance Sheet (Rs cr)	FY17	FY18	FY19	FY20	FY21
Share Capital	36	36	36	35	30
Reserves	3127	3376	3681	4177	4382
Borrowings	4389	4008	3438	3492	2329
Other Liabilities	890	811	1185	1578	2949
Non-controlling interest	276	319	376	551	664
Trade Payables	89	129	141	106	73
Advance from Customers	0	0	2	4	0
Other liability items	525	362	667	918	2212
Total Liabilities	8441	8230	8340	9283	9690
Fixed Assets	2148	6143	5965	6019	5639
Gross Block	2404	6641	6753	7126	0
Accumulated Depreciation	256	498	789	1107	0
CWIP	3969	10	6	17	17
Investments	411	175	155	124	314
Other Assets -	1913	1903	2214	3122	3720
Inventories	400	404	420	399	295
Trade receivables	166	726	1378	2193	914
Cash Equivalents	647	319	249	292	359
Loans n Advances	593	565	809	785	1896
Other asset items	107	-111	-642	-546	255
Total Assets	8441	8230	8340	9283	9690

RETAIL RESEARCH

Cashflow Statement (Rs cr)	FY17	FY18	FY19	FY20	FY21
Profit from operations	191	808	1390	1340	1511
Receivables	33	-559	-654	-830	-862
Inventory	7	-4	-9	23	102
Payables	-61	37	9	-41	-13
Other WC items	-83	-11	152	108	98
Working capital changes	-105	-538	-502	-740	-674
Direct taxes	-48	-69	-63	-74	-79
Cash from Operating Activity	39	201	824	527	758
Fixed assets purchased	-516	-80	-132	-130	-33
Fixed assets sold	0	5	0	0	0
Investments purchased	-487	-76	-110	-93	-589
Investments sold	208	326	145	130	414
Interest received	39	39	65	71	2
Dividends received	10	2	2	3	0
Other investing items	57	52	31	26	-4
Cash from Investing Activity	-690	267	1	7	-210
Proceeds from borrowings	1019	119	185	68	96
Repayment of borrowings	-285	-676	-694	-282	-185
Interest paid fin	-61	-236	-338	-180	-261
Dividends paid	-25	-20	-30	-60	0
Financial liabilities	0	0	0	-4	-4
Share application money	0	0	0	0	0
Other financing items	0	0	0	-22	-118
Cash from Financing Activity	648	-813	-878	-482	-473
Net Cash Flow	-3	-345	-52	52	75

Key Ratio	FY17	FY18	FY19	FY20	FY21
Profitability Ratio					
EBITDAM (%)	12.9%	33.8%	46.1%	43.0%	41.8%
EBITM (%)	6.2%	24.0%	36.7%	32.5%	30.0%
NPM (%)	6.4%	10.1%	9.4%	14.3%	16.6%
Retrun Ratio					
RoE (%)	2.8%	7.0%	7.4%	9.4%	9.6%
RoCE (%)	2.3%	10.7%	19.0%	15.4%	15.8%
Valuation Ratio					
Price to Earnings (x)	25.4x	9.3x	8.0x	5.5x	4.6x
EV to EBITDA (x)	36.0x	7.4x	3.9x	4.5x	3.9x
Debt to Equity (x)	1.4x	1.2x	0.9x	0.8x	0.5x
Receivables Days	45	113	171	290	131
Inventory Days	108	63	52	53	42
Payables Days	24	20	17	14	10
Total Assets Turnover	0.16	0.29	0.35	0.30	0.26

One Year Price Chart



(Source: Company, HDFC sec)

HDFCSec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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