

Nava Bharat Ventures

BUY

Zambia power plant to hit 85% PLF from Q3FY18

Summary

- Nava Bharat Ventures (NBVL) reported EBTIDA of Rs447 mn which was in line with our estimate.
- Although NBVL's Power segment EBIT fell 67.8% YoY to Rs235 mn (in-line with our expectation), Ferro Alloys segment EBIT rose 359.4% YoY to Rs65 mn.
- Zambian power plant (300 MW) likely to hit 85% PLFs from Q3FY18.
- NBVL is currently evaluating to set up an integrated sugar complex in Zambia.
- We cut our FY18 sales and profitability estimates to account for slower-than-expected ramp-up at Zambian power plant and to consider the INR appreciation against the USD; maintain BUY with a TP of Rs159.

Key Highlights and Investment Rationale

- **Ferro Alloy segment outperforms:** NBVL's Power segment EBIT fell 67.8% YoY to Rs235 mn (in-line with our expectation) due to grid curtailment and low tariffs. Nevertheless, Ferro Alloys segment EBIT rose 359.4% YoY to Rs65 mn.
- **300 MW Zambian power plant capitalized:** In late July, NBVL announced that its step-down subsidiary, Maamba Collieries, had achieved Provisional Acceptance under the EPC contract. NBVL will capitalize the 300 MW power plant and will be consolidated in its financial numbers. The company expects Zambian power plant PLF to hit 85% from October 2018.
- **Sugar plant feasibility in Zambia:** NBVL is conducting a feasibility study to set up an integrated sugar complex in Zambia via its step-down subsidiary; Kawambwa Sugar Ltd. Government has already allotted 10,000 Ha of land for the project.
- **Outlook:** NBVL is on the verge of transitioning its business model as its dependency on cyclical businesses (ferro alloys and merchant power) will reduce sharply with commercial commissioning of 300 MW power plant at Zambia from Q2FY18. Further, the company is looking to sell its 120 MW power plants in Odisha which could be a key catalyst for the stock. **We maintain our BUY rating with a TP of Rs159.**

TP	Rs159	
CMP	Rs126	
Potential upside / downside	+26%	
Previous Rating	BUY	
V/s Consensus		
EPS (Rs)	FY18E	FY19E
IDBI Capital	11.7	21.4
Consensus	17.6	24.0
% difference	(33.5)	(10.8)

Shareholding Pattern (%)	
Promoters	44.4
FII	12.3
DII	10.8
Public	32.5

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(1.7)	(14.0)	10.0
Rel to Sensex	(3.6)	(20.8)	(3.8)

Financial snapshot

	(Rs mn)				
Year	FY2015	FY2016	FY2017	FY2018E	FY2019E
Revenue	18,138	16,125	13,809	23,939	27,851
EBITDA	3,151	3,644	1,811	9,987	12,397
EBITDA (%)	17.4	22.6	13.1	41.7	44.5
Adj. PAT	2,065	2,837	224	2,093	3,828
EPS (Rs)	11.6	15.9	1.3	11.7	21.4
EPS Growth (%)	(27.4)	37.4	(92.1)	835.0	82.9
PE (x)	10.9	7.9	100.3	10.7	5.9
Dividend Yield (%)	2.2	1.9	1.4	2.3	2.8
EV/EBITDA (x)	7.3	13.1	27.3	4.8	3.7
RoE (%)	7.0	9.3	0.7	6.2	10.7
RoCE (%)	6.8	5.5	1.3	8.9	12.2

Source: Company; IDBI Capital Research

Key Stock Data	
Bloomberg / Reuters	NBVL IN / NABV.BO
Sector	Midcap
Shares o/s (mn)	179
Market cap. (Rs mn)	22,438
Market cap. (US\$ mn)	349
3-m daily average value (Rs mn)	132
52-week high / low	Rs155 / 103
Nifty / Sensex	9,908 / 31,532

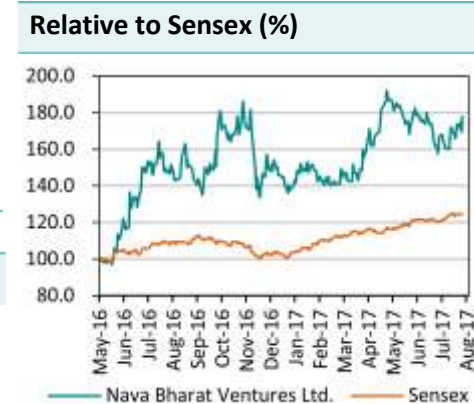


Table 1: Quarterly Snapshot(Rs mn)

Financial snapshot	Q1FY18	Q4FY17	QoQ (%)	Q1FY17	YoY (%)
Net sales	3,636	3,880	(6.3)	3,215	13.1
Expenditure	3,189	3,273	(2.6)	2,178	25.8
EBITDA	447	607	(26.3)	1,037	(34.3)
<i>EBITDA margin (%)</i>	<i>12.3</i>	<i>15.6</i>	<i>(335bps)</i>	<i>21.2</i>	<i>(888bps)</i>
Other income	174	(19)	Nm	351	(50.5)
Interest	122	207	(40.9)	278	(56.1)
Depreciation	217	274	(20.6)	224	(3.1)
PBT	281	107	162.0	529	(46.8)
Tax	90	160	(43.5)	256	(64.6)
PAT	153	399	(61.6)	277	(44.7)
Adj. diluted EPS (Rs)	0.87	2.23	(61.0)	1.56	(44.2)

Source: Company; IDBI Capital Research

Table 2: Actual vs. Estimates (Rs mn)

	Q1FY18E	Q1FY18	Variance (%)
Net sales	3,074	3,636	18.3
EBTIDA	442	447	1.1
<i>Margin</i>	<i>16.8</i>	<i>12.3</i>	<i>(450bps)</i>
PAT	215	153	(28.7)
Adj. diluted EPS (Rs)	1.20	0.87	(27.5)

Source: Company; IDBI Capital Research

Table 3: Operating and Segmental performance

	Q1FY18	Q4FY17	QoQ (%)	Q1FY17	YoY (%)
Ferro alloys operating performance					
Sales volumes (tonnes)					
Silico manganese	22,978	18,033	27.4	10,266	123.8
Ferro manganese & chrome	-	269	nm	2,356	nm
Ferro chrome (Conversion)	17,353	16,866	2.9	14,111	23.0
Power sales (mn units)					
Captive consumption	149	150	(-0.4)	121	23.5
Outside sales	124	101	22.8	165	(24.9)
Merchant sales - NBEIL	159	207	(23.3)	173	(8.2)
Segment Revenues (Rs mn)					
Ferro Alloys	2,044	1,898	7.7	1,132	80.7
Power	1,797	2,189	(17.9)	2,208	(18.6)
Sugar	430	494	(12.9)	355	21.2
Mining	203	129	58.3	176	15.2
Others	247	-	nm	-	nm
Total Revenues	4,722	4,709	0.3	3,870	22.0
Less: intersegment sales	1,086	830	30.9	656	65.6
Net revenues	3,636	3,879	(6.3)	3,215	13.1
Segment EBIT (Rs mn)					
Ferro Alloys	65	10	555.2	14	359.4
Power	235	278	(15.5)	728	(67.8)
Sugar	72	119	(39.4)	85	(15.7)
Mining	99	149	(33.9)	(21)	(570.8)
Others	(67)	263	(125.3)	1	nm
Total EBIT	403	819	(50.7)	807	(50.0)

Source: Company; IDBI Capital Research

We have lowered our FY18 sales and profit estimates for Zambian power plants to factor delay in commissioning of commercial plant and also to account of rupee appreciation against the USD. Also, our FY19 estimates stand slightly lowered to factor in rupee appreciation against the USD.

Table 4: Change in estimates

	FY18E			FY19E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	25,981	23,939	(7.9)	28,261	27,851	(1.4)
EBITDA (Rs mn)	11,375	9,987	(12.2)	12,666	12,397	(2.1)
EBITDA margin (%)	43.8	41.7	(206bps)	44.8	44.5	(31bps)
Net profit (Rs mn)	2,838	2,093	(26.3)	3,853	3,828	(0.6)
EPS (Rs)	15.9	11.7	(26.3)	21.6	21.4	(0.6)

Source: Company; IDBI Capital Research

Table 5: Valuation summary

	Method	FY19E EPS (Rs)	Multiple (x)	Value/share (Rs)
Standalone	PE	3.7	6.5	24
NBEL	PE	3.4	6.5	22
Maamba Collieries (30% discount to NAV)	DCF			113
Total				159
CMP (Rs)				126
Upside potential (%)				26

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net sales	16,125	13,809	23,939	27,851
<i>net sales margin (%)</i>	<i>(0.11)</i>	<i>(0.14)</i>	<i>0.73</i>	<i>0.16</i>
Operating expenses	12,481	11,998	13,952	15,454
EBITDA	3,644	1,811	9,987	12,397
<i>EBITDA margin (%)</i>	<i>22.6</i>	<i>13.1</i>	<i>41.7</i>	<i>44.5</i>
Depreciation	837	904	3,478	3,491
PBIT	3,675	1,685	7,205	9,602
Interest	877	865	4,429	4,081
Other Income	868	778	695	695
PBT(Before exceptional & Extraordinary items)	2,798	820	2,776	5,521
Tax	(167)	535	384	319
<i>Effective tax rate (%)</i>	<i>(6.0)</i>	<i>65.3</i>	<i>13.8</i>	<i>5.8</i>
PAT	2,966	1,071	2,392	5,202
Minority Interest (Profit) / Loss	(129)	(61)	(299)	(1,373)
Exceptional items	-	(786)	-	-
NPAT after minority interest	2,837	1,010	2,093	3,828
<i>growth (%)</i>	<i>37.7</i>	<i>(64.4)</i>	<i>107.2</i>	<i>82.9</i>
<i>Number of shares (mn)</i>	<i>179</i>	<i>179</i>	<i>179</i>	<i>179</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Pre-tax profit	2,701	820	2,776	5,521
Depreciation	763	904	3,478	3,491
Tax paid	(700)	(535)	(384)	(319)
Chg in working capital	(4,892)	(1,981)	(3,411)	(2,928)
Other operating activities	9	-	-	-
Cash flow from operations (a)	(2,118)	(792)	2,459	5,765
Capital expenditure	(14,298)	(8,377)	(843)	(2,325)
Chg in investments	576	-	-	-
Other investing activities	536	-	-	-
Cash flow from investing (b)	(13,185)	(8,377)	(843)	(2,325)
Equity raised/(repaid)	-	178	-	-
Debt raised/(repaid)	21,650	4,726	(3,986)	(3,986)
Dividend paid	(421)	(313)	(521)	(625)
Other financing activities	(736)	-	-	-
Cash flow from financing (c)	20,494	4,592	(4,507)	(4,611)
Net chg in cash (a+b+c)	5,190	(4,577)	(2,891)	(1,171)

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net fixed assets	58,395	57,773	55,143	53,977
Investments	139	25	25	25
Other non-curr assets	3,091	7,791	13,506	15,713
Current assets	221	2,202	2,863	3,149
Inventories	4,310	3,998	3,307	5,020
Sundry Debtors	1,952	3,523	1,890	3,547
Cash and Bank	6,851	6,466	3,575	2,403
Marketable Securities	362	3,941	3,941	3,941
Loans and advances	1,818	2	2	2
Total assets	77,139	85,722	84,252	87,779
Shareholders' funds	34,699	35,515	37,386	41,963
Share capital	179	357	357	357
Reserves & surplus	31,747	32,401	33,973	37,176
Minority Interest	2,773	2,757	3,056	4,429
Total Debt	32,649	38,444	35,177	31,469
Current liabilities	9,480	11,692	10,966	13,507
Provisions	311	70	718	836
Total liabilities	9,791	11,762	11,684	14,342
Total equity & liabilities	77,139	85,722	84,252	87,779
Book Value (Rs)	179	183	192	210

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY16	FY17	FY18E	FY19E
Adj. EPS (Rs)	15.9	1.3	11.7	21.4
Adj. EPS growth (%)	37.4	(92.1)	835.0	82.9
EBITDA margin (%)	22.6	13.1	41.7	44.5
Pre-tax margin (%)	17.4	11.6	11.6	19.8
ROE (%)	9.3	0.7	6.2	10.7
ROCE (%)	5.5	1.3	8.9	12.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.2	0.2	0.3	0.3
Leverage factor (x)	0.2	0.2	0.3	0.3
Net margin (%)	17.6	1.6	8.7	13.7
Net Debt/Equity (x)	0.8	0.8	0.8	0.6
Working Capital & Liquidity ratio				
Inventory days	98	106	50	66
Receivable days	44	93	29	46
Payable days	49	34	70	95

Valuation

Year-end: March	FY16	FY17	FY18E	FY19E
PER (x)	7.9	100.3	10.7	5.9
Price / Book value (x)	0.6	0.5	0.6	0.6
PCE (x)	6.1	19.9	4.0	3.1
EV / Net sales (x)	3.0	19.9	4.0	3.1
EV / EBITDA (x)	13.1	27.3	4.8	3.7
Dividend Yield (%)	1.9	1.4	2.3	2.8

Notes

Dealing	(91-22) 6637 1150	dealing@idbicapital.com
---------	-------------------	-------------------------

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd. (Formerly known as “IDBI Capital Market Services Ltd.”)

Equity Research Desk

3rd Floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 4322 1212; Fax: (91-22) 2285 0785; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 4322 1212

Disclaimer

This document has been prepared by IDBI Capital Markets & Securities Ltd (formerly known as “IDBI Capital Market Services Ltd.”) (“IDBI Capital”) and is meant for the recipient only for use as intended and not for circulation. This document should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The Report and information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behaviour of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital Markets & Securities Ltd (formerly known as “IDBI Capital Market Services Ltd.”) cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrive late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

I, Bhavesh Chauhan, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Other Disclosures

IDBI Capital Markets & Securities Ltd (**formerly known as “IDBI Capital Market Services Ltd.”**) “IDBI Capital” was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India’s leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail), Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services.

IDBI Capital registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst.

IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital Markets & Securities Ltd. (**formerly known as “IDBI Capital Market Services Ltd.”**) and its associates (IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group are a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com

IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover.

Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital Markets & Securities Ltd (**formerly known as “IDBI Capital Market Services Ltd.”**) and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declare that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates/companies or have other potential conflict of interest.

This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk.

IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company.

We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital Markets & Securities Ltd (**formerly known as “IDBI Capital Market Services Ltd.”**) or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report.

Price history of the daily closing price of the securities covered in this note is available at bseindia.com, nseindia.com and economictimes.indiatimes.com/markets/stocks/stock-quotes.