

Nava Bharat Ventures

BUY

Q1 slightly weaker than expected ; Valuations inexpensive

Summary

Nava Bharat Ventures (NBVL) reported slightly weaker than expected results for Q1FY19. Sales/EBITDA were slightly lower than our estimates by 6.3%/5.6%, respectively. While Zambian utility company reported satisfactory operational performance, its receivables have been delayed. On a positive note, domestic Ferro Alloy segment EBIT increased 177% YoY to Rs173mn. Also, standalone Power EBIT increased 21% YoY to Rs255 mn. Net profit jumped nearly 4.5x YoY to Rs854 mn.

We broadly keep our estimates unchanged and maintain our Buy rating with a target price of Rs189.

Key Highlights and Investment Rationale

- Standalone Ferro Alloys and Power profits strong:** Ferro Alloy segment EBIT increased 177.1% YoY to Rs173 mn. Also, standalone Power EBIT increased 21.0% YoY to Rs255 mn. However, Sugar division reported EBIT loss of Rs33 mn (EBIT of Rs69 mn in Q1FY18) on lower sugar prices.
- Zambian utility receivables remain high:** Receivables in Zambian utility company, Maamba Collieries have been delayed beyond the stipulated credit period. Outstanding receivables were \$116 mn as of June 30 (normalized receivables should have been at \$40 mn). Nevertheless, these receivables are fully secured and we do not foresee credit risks to these. The company expects a substantial payment before September to clear part of these.
- Sugar project in Zambia likely to be the new venture:** Kawambwa Sugar Limited, the step down subsidiary of NBVL in Zambia, has been allocated a farm block of 25,000 acres - NBVL aims to set up an integrated sugar plant. However, the capex and timelines for the same are not finalized as yet. We expect company to repay debt and aim to monetize the idle Odisha power plant (60 MW) in FY19. The stock trades at an attractive valuation –EV/EBITDA of 3.5x FY20. **We maintain our BUY rating with a revised target price of Rs189 (previous TP – Rs198).**

TP	Rs189
CMP	Rs130
Potential upside / downside	+45%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY19E	FY20E
IDBI Capital	21.7	23.1
Consensus	21.2	24.6
% difference	2.3	(6.0)

Shareholding Pattern (%)

Promoters	44.4
FII	10.4
DII	9.8
Public	35.4

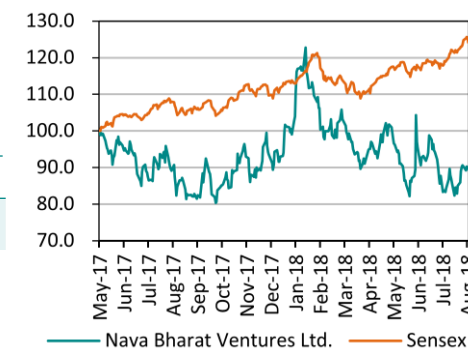
Price Performance (%)

	-1m	-3m	-12m
Absolute	4.1	(8.7)	(1.5)
Rel to Sensex	(1.6)	(16.7)	(18.1)

Key Stock Data

Bloomberg / Reuters	NBVL IN / NABV.BO
Sector	Midcap
Shares o/s (mn)	179
Market cap. (Rs mn)	23,170
Market cap. (US\$ mn)	345
3-m daily average value (Rs mn)	140
52-week high / low	Rs184 / 118
Sensex / Nifty	37,666 / 11,389

Relative to Sensex (%)



Financial snapshot

Year	FY2016	FY2017	FY2018	FY2019E	FY2020E
Revenue	16,125	13,503	23,487	31,071	31,680
EBITDA	3,644	1,735	7,930	11,766	11,909
EBITDA (%)	22.6	12.9	33.8	37.9	37.6
Adj. PAT	2,837	84	2,380	3,872	4,126
EPS (Rs)	15.9	0.5	13.3	21.7	23.1
EPS Growth (%)	37.4	(97.0)	2,731.6	62.7	6.6
PE (x)	8.7	294.7	10.4	6.4	6.0
Dividend Yield (%)	1.7	1.3	2.1	2.5	2.5
EV/EBITDA (x)	13.7	28.9	6.7	3.9	3.5
RoE (%)	9.3	0.3	7.3	10.9	10.6
RoCE (%)	5.5	1.2	7.9	12.6	12.6

Source: Company; IDBI Capital Research

Exhibit 1: Consolidated quarterly snapshot (Rs mn)

Financial snapshot	Q1FY19	Q4FY18	QoQ (%)	Q1FY18	YoY (%)
Net sales	7,408	8,848	(16.3)	3,593	106.2
Expenditure	4,652	4,723	(1.5)	2,556	47.9
EBITDA	2,755	4,125	(33.2)	1,037	516.4
<i>EBITDA margin (%)</i>	37.2	46.6	(942)bps	12.4	2,476bps
Other income	242	288	(15.8)	174	39.5
Interest	862	900	(4.2)	122	606.8
Depreciation	700	764	(8.5)	217	222.0
PBT	1,436	2,748	(47.8)	281	410.2
Tax	282	624	(54.8)	90	212.0
PAT	1,154	2,125	(45.7)	191	504.1
Minority interest	(300)	(389)	(22.9)	(38)	693.1
PAT after minority interest	854	1,735	(50.8)	153	457.5
Adj. diluted EPS (Rs)	5.15	9.72	(47.0)	0.87	492.0

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates (Rs mn)

	Q1FY19E	Q1FY19A	Variance (%)
Net sales	7,905	7,408	(6.3)
EBTIDA	2,919	2,755	(5.6)
<i>EBITDA margin (%)</i>	36.9	37.2	(28)bps
PAT	925	854	(7.7)
Adj. diluted EPS (Rs)	5.58	5.15	(7.7)

Source: Company; IDBI Capital Research

Exhibit 3: Consolidated operating and segmental performance

	Q1FY19	Q4FY18	QoQ (%)	Q1FY18	YoY (%)
Segment Revenues (Rs mn)					
Ferro Alloys	2,043	2,616	(21.9)	2,044	(0.1)
Power	5,527	6,554	(15.7)	1,797	207.5
Sugar	529	546	(3.2)	430	22.9
Mining	447	741	(39.6)	203	120.0
Others	419	164	154.7	247	69.7
Total Revenues	8,964	10,621	(15.6)	4,722	89.8
Less: intersegment sales	1,557	1,773	(12.2)	1,086	43.3
Net revenues	7,408	8,848	(16.3)	3,636	103.7
Segment EBIT (Rs mn)					
Ferro Alloys	173	266	(35.2)	62	177.1
Power	1,888	3,179	(40.6)	125	1,415.6
Sugar	(33)	(125)	-	69	-
Mining	52	(22)	(342.1)	90	(41.7)
Others	(24)	62	-	(116)	-
Total EBIT	2,056	3,361	(38.8)	230	795.0

Source: Company; IDBI Capital Research

Exhibit 4: Valuation summary

	Method	FY20E EPS (Rs)	Multiple (x)	Value/share (Rs)
Standalone	PE	6.3	10.0	55
NBEL	PE	1.3	6.0	6
Maamba Collieries (30% discount to NAV)	DCF			127
Total				189
CMP (Rs)				130
Upside potential (%)				45

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY17	FY18	FY19E	FY20E
Net sales	13,503	23,487	31,071	31,680
<i>growth (%)</i>	<i>(16.3)</i>	<i>73.9</i>	<i>32.3</i>	<i>2.0</i>
Operating expenses	(11,768)	(15,557)	(19,305)	(19,771)
EBITDA	1,735	7,930	11,766	11,909
<i>growth (%)</i>	<i>(52.4)</i>	<i>357.0</i>	<i>48.4</i>	<i>1.2</i>
Depreciation	(904)	(2,284)	(2,818)	(2,820)
EBIT	831	5,646	8,948	9,089
Interest paid	(722)	(2,463)	(3,605)	(3,322)
Other income	694	694	412	506
Pre-tax profit	1,589	3,876	5,755	6,273
Tax	(661)	(1,096)	(446)	(554)
<i>Effective tax rate (%)</i>	<i>41.6</i>	<i>28.3</i>	<i>7.7</i>	<i>8.8</i>
Minority Interest	(58.6)	(399.6)	(1,438)	(1,592)
Net profit	870	2,380	3,872	4,126
Exceptional items	786	-	-	-
Adjusted net profit	84	2,380	3,872	4,126
<i>growth (%)</i>	<i>(97.0)</i>	<i>2,731.6</i>	<i>62.7</i>	<i>6.6</i>
<i>Shares o/s (mn nos)</i>	<i>179</i>	<i>179</i>	<i>179</i>	<i>179</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY17	FY18E	FY19E	FY20E
Pre-tax profit	1,589	3,876	5,755	6,273
Depreciation	1,147	2,284	2,818	2,820
Tax paid	(643)	(1,088)	(442)	(554)
Chg in working capital	4,194	(5,740)	2,256	(2,269)
Other operating activities	(1,145)	-	-	-
Cash flow from operations (a)	5,143	(667)	10,388	6,269
Capital expenditure	(5,030)	(2,627)	(825)	(806)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(8,610)	(274)	(825)	(806)
Equity raised/(repaid)	179	-	-	-
Debt raised/(repaid)	3,384	(2,525)	(3,986)	(3,986)
Dividend (incl. tax)	(313)	(521)	(625)	(625)
Chg in minorities	(75)	29	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	3,175	(3,016)	(4,611)	(4,611)
Net chg in cash (a+b+c)	(291)	(3,957)	4,951	852

Balance Sheet

(Rs mn)

Year-end: March	FY17	FY18	FY19E	FY20E
Net fixed assets	60,889	61,232	59,239	57,225
Investments	-	-	-	-
Other non-curr assets	3,581	2,547	3,547	4,547
Current assets	19,937	18,532	23,044	26,555
Inventories	3,998	4,043	3,954	5,005
Sundry Debtors	1,662	7,255	7,722	10,315
Cash and Bank	6,466	3,185	7,074	6,670
Marketable Securities	3,941	1,588	1,588	1,588
Loans and advances	2	4	4	4
Total assets	84,408	82,311	85,829	88,327
Shareholders' funds	31,622	33,847	37,093	40,595
Share capital	357	357	357	357
Reserves & surplus	31,265	33,490	36,736	40,238
Total Debt	35,764	33,239	29,253	25,268
Secured loans	35,764	33,239	29,253	25,268
Other liabilities	2,697	572	757	772
Curr Liab & prov	11,568	11,468	14,101	15,477
Current liabilities	11,498	11,277	13,850	15,221
Provisions	70	190	251	256
Total liabilities	50,029	45,278	44,112	41,517
Total equity & liabilities	84,408	82,311	85,829	88,327
Book Value (Rs)	177	190	208	227

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY17	FY18	FY19E	FY20E
Adj. EPS (Rs)	0.5	13.3	21.7	23.1
Adj. EPS growth (%)	(97.0)	2,731.6	62.7	6.6
EBITDA margin (%)	12.9	33.8	37.9	37.6
Pre-tax margin (%)	0.1	16.5	18.5	19.8
ROE (%)	0.3	7.3	10.9	10.6
ROCE (%)	1.2	7.9	12.6	12.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.2	0.3	0.4	0.4
Leverage factor (x)	2.5	2.5	2.4	2.2
Net margin (%)	0.6	10.1	12.5	13.0
Net Debt/Equity (x)	0.8	0.8	0.6	0.4
Working Capital & Liquidity ratio				
Inventory days	108	63	46	58
Receivable days	45	113	91	119
Payable days	28	29	19	40

Valuation

Year-end: March	FY17	FY18	FY19E	FY20E
PER (x)	294.7	10.4	6.4	6.0
Price / Book value (x)	0.8	0.7	0.7	0.6
PCE (x)	25.1	5.3	3.7	3.6
EV / Net sales (x)	3.7	2.3	1.5	1.3
EV / EBITDA (x)	28.9	6.7	3.9	3.5
Dividend Yield (%)	1.3	2.1	2.5	2.5



Notes

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Key to Ratings Stocks:

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

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