

NAVA BHARAT VENTURES LTD

BUY
CMP Rs 421
TP Rs 526

31 May 2010

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POWER-full performance in FY10

High margin power segment helped NBVL post a 9.6% YoY increase in bottom line despite a 8.3% YoY decline in topline in FY10. The growth was further enhanced by 74.6% YoY increase in other income and a higher MAT credit.

Revenues: Revenues increased by 3.4% YoY in Q4FY10 due to increase in sales of Ferro Alloys. Despite 20% YoY growth in revenues from power in FY10, revenues declined by 8.3% YoY, as revenues from ferro alloys fell by 48.6%.

Power segment drives operating profits: With increased contribution of power segment to the total revenues in FY10, operating margins improved by 441bps at 47.1%. In Q4FY10 operating profits grew by 10.2% and operating margins improved by 242bps.

Net profit improves: NBVL's net profit improved by 9.6% YoY in FY10 with higher other income and lower tax. In Q4FY10, profit was almost flat (1.4% growth YoY) at Rs1.1bn with a lower MAT credit adjustment. The company declared a dividend of Rs9/share at dividend yield of 2.1% at the CMP.

Expansions on track: As planned, the 64MW power plant was commissioned in FY10. Further, the company also achieved financial closure for the 2x150MW power plants by its step down subsidiary. This project would entail a cost of Rs14.9bn to be funded by a debt to equity ratio of 70:30.

Acquires 65% stake in MCL: During the quarter, the company acquired 65% stake in Maamba Collieries Limited (MCL), Zambia through its Singapore subsidiary. MCL has coal mining rights over an area of 79 sq kms at Maamba with mineable reserves of 65 mn high grade coal and equivalent reserve of thermal grade coal. Revenues from coal trading is expected to commence by H2 FY11. Over the longer term, MCL has plans to establish a coal based power plant of 300MW. Power generation from this plant is expected to come by FY13-14. We have not included this in our estimates.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs421, NBVL trades at a P/E of 6.9x its FY11E EPS of Rs60.9 and an EV/EBITDA of 6.0x. We maintain our 'BUY' recommendation on the stock with a target price of Rs526. We have assigned 7x to FY11E EPS and valued the upcoming 64MW and 2x150MW power business on a DCF basis at Rs100, to arrive at a SOTP value of Rs526.

KEY FINANCIALS

Rs mn	FY07	FY08	FY09	FY10P	FY11E
Net Sales	5,701	9,253	12,778	11,715	14,797
YoY Gr.(%)	27.0	62.3	38.1	(8.3)	26.3
Op. Profit	1,639	4,043	5,483	5,522	6,671
Op. Marg.(%)	28.7	43.7	42.9	47.1	45.1
Adj. Net Profit	1,405	3,148	4,552	4,987	5,275
YoY Gr.(%)	137.0	124.1	44.6	9.6	5.8

KEYRATIO

Dil. EPS (Rs)	20.7	36.3	52.5	57.5	60.9
ROCE (%)	14.0	27.9	25.2	25.6	29.8
RoE (%)	38.6	51.5	46.1	36.0	28.9
PER (x)	20.3	11.6	8.0	7.3	6.9
EV/ Net Sales (x)	5.3	3.7	2.6	2.5	2.7
EV/EBDITA (x)	18.5	8.6	6.0	5.4	6.0

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-09	Dec-09	Mar -10
Net sales	2,451	2,638	3,141
YoY Gr.(%)	(38.5)	(7.9)	3.4
Op.Profit	1,325	1,481	1,234
OPM(%)	54.1	56.2	39.3
Adj.Net Profit	1,201	1,322	1,100
YoY Gr. (%)	1.3	30.8	1.4

STOCK DATA

Market cap	Rs 32.7bn
Book Value per share	Rs 209
Shares O/S (F.V. Rs2)	Rs 76.3mn
Free Float	54.3%
Avg Trade Value (6 months)	Rs 38.3mn
52 week High/Low	Rs 462.4/255
Bloomberg Code	NBVL IN
Reuters Code	NABV.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	0.9	16.8	55.8
Relative	3.9	16.2	37.9

RELATIVE PERFORMANCE

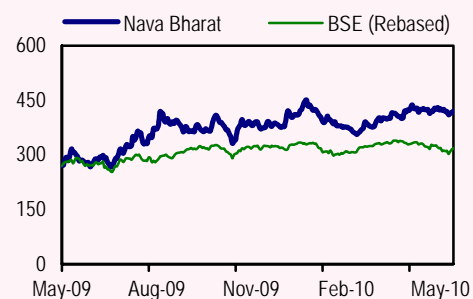


Exhibit 1 - Quarterly snapshot

Rs mn	Q4FY10	Q4FY09	YOY%	Q3FY10	QoQ %	FY10	FY09	YOY%
Net Sales	3,141	3,037	3.4	2,638	19.1	11,715	12,778	(8.3)
Net Raw material	877	810	8.4	429	104.7	2,936	2,821	4.1
(% of net sales)	27.9	26.7		16.2		25.1	22.1	
Employee Cost	250	148	69.1	146	71.0	668	541	23.5
(% of net sales)	7.9	4.9		5.5		5.7	4.2	
Purchase of traded goods	9	9	3.4	3	195.8	25	19	26.6
(% of net sales)	0.3	0.3		0.1		0.2	0.2	
Forex loss/(gain)	(6)	(53)	-	(59)	-	(20)	287	-
(% of net sales)								
Power and fuel	465	495	(6.2)	516	(10.0)	1,981	1,782	11.2
(% of net sales)	14.8	16.3		19.6		16.9	13.9	
Other expenses	312	509	(38.7)	121	158.3	602	1,867	(67.7)
(% of net sales)	9.9	16.7		4.6		5.1	14.6	
Total Expenditure	1,907	1,917	(0.5)	1,156	64.9	6,192	7,317	(15.4)
Operating Profits	1,234	1,120	10.2	1,481	(16.7)	5,522	5,461	1.1
EBITDA Margins (%)	39.3	36.9		56.2		47.1	42.7	
Interest cost	79	76	2.9	70	13.1	306	310	(1.2)
Depreciation	124	130	(4.1)	115	7.8	444	378	17.5
Other Income	96	90	6.7	79	21.7	326	187	74.6
PBT	1,127	1,004	12.3	1,375	(18.0)	5,098	4,960	2.8
(% of net sales)	35.9	33.1		52.1		43.5	38.8	
Total Tax	27	(82)	(132.9)	53	(49.5)	112	409	(72.7)
(% of PBT)	2.4	(8.1)		3.9		2.2	8.2	
Profit after tax	1,100	1,085	1.4	1,322	(16.8)	4,987	4,551	9.6
(% of net sales)	35.0	35.7		50.1		42.6	35.6	
EPS (Rs)	14.1	15.0	(6.0)	17.4	(19.2)	60.8	57.0	6.7

Source: PINC Research, Company

Exhibit 2 - Production and Sales

	Q4FY10	Q4FY09	YOY%	Q3FY10	QoQ %	FY10	FY09	YOY%
Production								
Silico Manganese (MT)	12,185	6,882	77.1	10,917	11.6	27,665	58,063	(52.4)
Ferro Manganese (MT)	5	-		100	(95.0)	207	2,161	(90.4)
Ferro Chrome (MT)	5,709	-		6,177	(7.6)	14,555	18,889	(22.9)
Power (MU) net	402	370	8.8	410	(1.9)	1,563	1,350	15.8
Sugar (MT)	21,817	15,915	37.1	6,912	215.6	28,729	30,266	(5.1)
Molases (MT)	9,734	6,777	43.6	3,679	164.6	13,413	13,493	(0.6)
Spirit (b.Litres.)	733,300	921,300	(20.4)	-		733,300	1,970,200	(62.8)
Sales								
Silico Manganese (MT)	13,655	12,798	6.7	6,344	115.2	37,088	59,528	(37.7)
Ferro Manganese (MT)	72	35	105.7	95	(24.2)	1,967	1,012	94.4
Ferro Chrome (MT)	8,572	5,523	55.2	3,721	130.4	25,528	19,900	28.3
Power (MU) net								
Captive Consumption (MU)	74	31	143.0	71	4.7	179	336	(46.9)
Merchant Sales (MU)	328	339	(3.2)	339	(3.2)	1,385	1,015	36.5
Sugar (MT)	4,556	9,715	(53.1)	5,661	(19.5)	27,660	31,045	(10.9)
Molases (MT)	2,357	3,695	(36.2)	-		5,476	11,329	(51.7)
Spirit (b.Litres.)	54,709	545,621	(90.0)	20,281	169.8	871,034	1,680,017	(48.2)
Co-gen Power (KWH)	8,621,274	4,879,100	76.7	3,827,726	125.2	12,449,000	12,076,800	3.1

Source: PINC Research, Company

Exhibit 3 - Segmental Revenue (Rs mn)

Revenues	Q4FY10	Q4FY09	YOY%	Q3FY10	QoQ %	FY10	FY09	YOY%
Ferro Alloys	1,260	723	74.3	566	122.6	3,199	6,223	(48.6)
Power	1,936	2,174	(10.9)	2,070	(6.5)	8,276	6,898	20.0
Sugar	193	247	(22.1)	192	0.4	852	681	25.1
EBIT								
Ferro Alloys	93	(432)	(121.5)	36	156.7	40	1,268	(96.8)
Power	1,089	1,387	(21.4)	1,305	(16.5)	5,066	3,849	31.6
Sugar	(29)	92	(131.3)	29	(199.0)	98	80	23.6
EBIT Margins (%)								
Ferro Alloys	7.4	(59.8)		6.4		1.3	20.4	
Power	56.3	63.8		63.0		61.2	55.8	
Sugar	(14.9)	37.1		15.1		11.5	11.7	

Source: PINC Research, Company

All figures in Rs mn

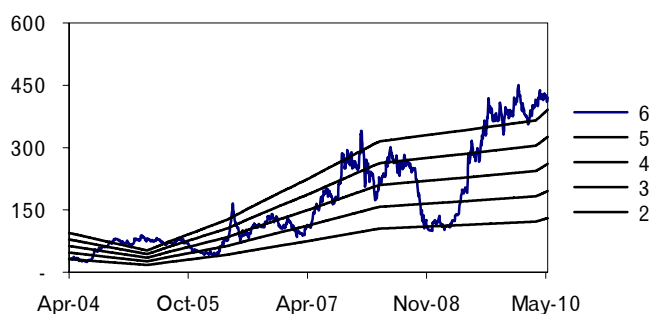
Income Statement	FY07	FY08	FY09	FY10P	FY11E
Net sales	5,701	9,253	12,778	11,715	14,797
Growth (%)	27.0	62.3	38.1	(8.3)	26.3
Operating Profit	1,639	4,043	5,483	5,522	6,671
Other operating income	-	-	-	-	-
EBITDA	1,639	4,043	5,483	5,522	6,671
Growth (%)	130.4	146.7	35.6	0.7	20.8
Depreciation	225	251	378	444	440
Other Income	122	122	187	326	300
EBIT	1,536	3,913	5,291	5,404	6,531
Interest Paid	176	211	330	306	325
PBT (before E/o items)	1,360	3,702	4,961	5,098	6,206
Tax Provision	57	554	409	112	931
E/o loss/(income)	(102)	-	-	-	-
Net Profit	1,405	3,148	4,552	4,987	5,275
Adjusted Net Profit	1,405	3,148	4,552	4,987	5,275
Growth (%)	137.0	124.1	44.6	9.6	5.8
Diluted EPS (Rs)	20.7	36.3	52.5	57.5	60.9
Diluted EPS Growth (%)	137.0	75.2	44.6	9.6	5.8

Cash Flow Statement	FY07	FY08	FY09	FY10P	FY11E
Pre-tax profit	1,360	3,702	4,960	5,098	6,206
Depreciation	225	251	378	444	440
Total Tax Paid	(169)	(492)	(638)	(121)	(921)
Chg in working capital	(47)	(1,309)	(1,841)	427	(2,671)
Other operating activities	198	99	655	(20)	25
Cash flow from oper (a)	1,566	2,252	3,514	5,829	3,079
Capital Expenditure	(1,377)	(2,487)	(1,079)	(7,100)	(2,500)
Chg in investments	35	(616)	(1,803)	(591)	-
Other investing activities	0	83	115	326	300
Cash flow from inv.(b)	(1,342)	(3,020)	(2,767)	(7,366)	(2,200)
Free cash flow (a+b)	224	(768)	747	(1,537)	879
Equity raised/(repaid)	108	1,243	(209)	65	1,400
Debt raised/(repaid)	2,441	(776)	311	(366)	(324)
Change in minority interest	-	-	-	-	-
Dividend (incl. Tax)	(122)	(249)	(509)	(804)	(710)
Other financing activities	(128)	(169)	(165)	(306)	(325)
Cash flow from fin ©	2,299	48	(572)	(1,410)	41
Net chg in cash (a+b+c)	2,524	(720)	175	(2,947)	920

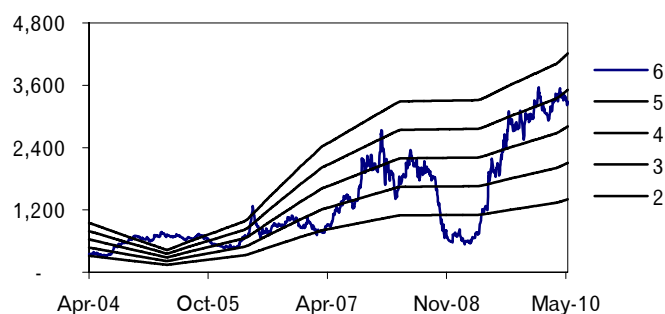
Balance Sheet	FY07	FY08	FY09	FY10P	FY11E
Equity Share Capital	136	156	152	153	173
Reserves & surplus	4,066	7,878	11,562	15,810	20,375
Shareholders' funds	4,201	8,033	11,714	15,962	20,548
Minorities interests	-	-	-	-	-
Total Debt	4,717	3,993	4,304	3,938	3,614
Capital Employed	8,918	12,026	16,018	19,900	24,162
Net fixed assets	4,196	6,438	7,151	7,968	15,867
Cash & Cash Eq.	2,882	2,162	3,331	6,222	(76)
Net Other current assets	2,019	3,365	5,376	4,948	7,619
Investments	16	210	372	963	963
Net Deferred tax Assets	(195)	(150)	(211)	(202)	(212)
Total Assets	8,918	12,026	16,018	19,900	24,162

Key Ratios	FY07	FY08	FY09	FY10P	FY11E
OPM (%)	28.7	43.7	42.9	47.1	45.1
Net Margin (%)	24.6	34.0	35.6	42.6	35.7
Yield (%)	1.0	1.6	1.7	2.1	1.7
Net debt/Equity (x)	0.4	0.2	0.1	(0.1)	0.2
Working Capital Days	47.5	77.7	107.9	58.8	120.0
ROCE (%)	14.0	27.9	25.2	25.6	29.8
RoE (%)	38.6	51.5	46.1	36.0	28.9
EV/Net Sales (x)	5.3	3.7	2.6	2.5	2.7
EV/EBITDA (x)	18.5	8.6	6.0	5.4	6.0
PER (x)	20.3	11.6	8.0	7.3	6.9
PCE (x)	22.4	10.7	7.4	6.7	6.4
Price/BV (x)	6.8	4.1	2.7	2.0	1.8

1 Year forward P/E Band



1 Year forward EV/EBIDTA



T E A M

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