June 17, 2010

DIVERSIFIED

RESULT REVIEW

Nava Bharat Ventures (Rs 426)

Market Performer

Target Price Rs 485

KARVY STOCK BROKING LIMITED

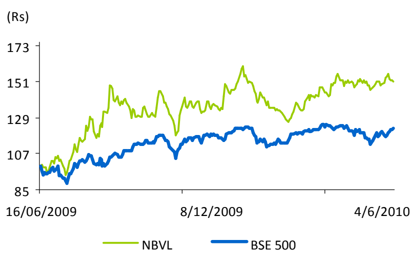
Institutional Equities

India Research

Stock Data

Shares Outstanding (mn)	89
Market Cap. (Rsbn / US$ mn)	38 / 805
52-week High/Low (Rs)	462/185
Bloomberg Code	NBVL@IN
Reuters Code	NABV.BO
Avg. daily volume ('000)	62
Avg. daily value (Rs mn)	41

Relative Performance



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Q4FY10 Result Review

Nava Bharat Ventures Ltd (NBV) reported total net sales of Rs. 3154 mn for Q4FY10, growth of 4% YoY and 20% QoQ. This is 7% lower than our expectations. This growth was mainly fuelled by revival in the ferro alloys segment, despite decline in power segment sales by 10% (YoY) and 7% (QoQ). On YoY, sales of ferro alloy segment registered 74%, attributed to 22% volume growth and 44% realisation growth. On sequential basis, primarily sales growth of above 120% was driven by similar quantum of volume growth. However, other two segments, power and sugar declined over both comparable periods. De growth in power sales would be attributed to decline in blended power tariff by 17% (YoY) and 5% (QoQ) to Rs 4.8/unit. Merchant power rates have slipped by 15% (YoY) and 6% (QoQ) to ~ Rs 5.2 in Q4 FY10. While sugar sales slipped by 22% (YoY), it remained flat sequentially to Rs 192 mn in Q4FY10.

Cost as % of sales	Q4FY09	Q3FY10	Q4FY10
Net material	26.7	16.2	27.8
Traded goods	0.5	0.1	0.3
Power and Fuel	16.3	19.6	14.7
Employee cost	5	6	8
Other Expenses	17	5	10
Total Expenses	65	46	61
EBITDA Margin	**35**	**54**	**39**

In Q4FY10 EBITDA margin contracted by 1460 bps (QoQ) and expanded by 429 bps (YoY) to 39%. This was against our margin expectations of ~42%. Sequential margin contraction was primarily driven by higher raw material cost, as ferro alloy volume improved significantly (120% QoQ) during Q4FY10, which is usually having high raw material cost (70-80% of net sales). Also, higher employee cost

Rsmn	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	9,192	13,364	11,659	12,928	15,795
EBITDA	3,678	5,846	5,468	5,213	6,674
Net Profit	3,197	5,206	4,955	3,922	4,587
EPS (Rs)	36.0	58.6	57.3	44.2	51.7
EPS Growth (%)	138	63	-2	-23	17
EBITDA margin (%)	40.0	43.7	46.9	40.3	42.3
PER (x)	11.8	7.3	7.4	9.6	8.2
P/BV (x)	8.5	4.6	3.2	2.3	1.8
Price/sales (x)	4.1	2.8	3.2	2.9	2.4
EV/EBITDA (x)	10.6	6.4	7.0	8.2	7.1
Dividend Yield (%)	1.3	1.8	2.1	2.1	2.1
ROCE (%)	31.5	38.0	26.9	14.6	13.4
ROE (%)	50.3	51.8	35.7	20.7	20.0

Source: Company and Karvy Estimates

(due to higher provisioning of gratuity for employee as per revised norm) is reflected in Q4FY10; hence employee cost as % of sales grew to 8% in Q4FY10 against 6% in Q3FY10. YoY EBITDA margin expansion of 429 bps could be primarily attributed to lower other expenses. As a result EBITDA for Q4FY10 stood at 1.24bn (13% lower than our expectations), higher by 17% (YoY) and down by 13% (QoQ). YoY growth can be explained by sales growth of 4% coupled with 430 bps of margin expansion. However, due to lower than expected sales coupled with lower than expected EBITDA margin, EBITDA was reported 13% lower than our expectations.

Quarterly Performance

(Rs. Mn)	Q4FY09	Q3 FY10	Q4FY10	YoY %	QoQ %
Net Sales	3,034	2,638	3,154	4.0	19.6
Expenditure	1,970	1,215	1,913	(2.9)	57.5
EBITDA	1,063	1,423	1,241	16.7	(12.8)
EBITDA margin (%)	35.0	53.9	39.3		
Other Income	94	79	83	(11.2)	5.4
Interest	76	70	79	2.9	13.1
Depreciation	130	115	124	(4.1)	7.8
Forex Fluctuation	(53)	(59)	(6)	(88.6)	(89.6)
PBT	1,004	1,375	1,127	12.3	(18.1)
Tax	(82)	53	27	(132.9)	(49.5)
Effective tax rate (%)	(8.1	3.9	2.4		
PAT	1,085	1,322	1,100	1.4	(16.8)
Net Margin (%)	35.8	50.1	34.9		

The interest expense of the company stood at Rs.78.7 mn for Q4FY10 growing 3% (YoY) and 13% (QoQ), on account of additional debt for new power plants. Depreciation for this period declined by 4% (YoY) but grew by 8% (QoQ). Consequently, PBT stood at Rs. 1.13 bn for Q4FY10, 12% growth (YoY) but 18% decline (QoQ). NBVL's total tax outgo exhibited an abnormal fall by 50% 133% (YoY) and 50% (QoQ) during Q4 FY10, as the company availed significantly higher MAT credit to the tune of Rs.122 mn; thus taking its tax liability to Rs. 26.8 mn. PAT for Q4FY10 reported as Rs 1.1 bn, flat on YoY basis but lower by 17% QoQ basis. Hence, diluted EPS percolates to Rs 12.4 in Q4FY10.

Segmental Performance

Revenue Break Up	Q4FY09	Q3 FY10	Q4FY10	YoY %	QoQ %
Power sales (Rs mn)	2,160	2,070	1,936	(10.4)	(6.5)
Power volume(mn units)	370	410	402	8.8	(1.9)
Blended Power tariff (Rs/unit)	5.8	5.1	4.8	(17.7)	(4.7)
Pure merchant power tariff	6.1	5.5	5.2	(14.8)	(6.5)
Ferro Alloy sales (Rs mn)	723	566	1,260	74.3	122.6
FA volume(tons)	18,356	10,160	22,299	21.5	119.5
Avg realisation (Rs/ton)	39,373	55,690	56,491	43.5	1.4
Sugar sales (Rs mn)	247	192	193	(22.1)	0.4
Intersegmental Revenue (Rsmn)	96	190	235	143.4	23.2
Total Revenue (Rs mn)	**3,034**	**2,638**	**3,154**	**4.0**	**19.6**

Ferro Alloys Segment

The ferro alloys segment of the company reported net sales of Rs.1.25 bn for Q4FY10, higher than our estimates of Rs. 732 mn. The sales grew a whopping 123% QoQ and 74% YoY. This growth is a result of improved off-take of ferro alloys (sales volumes touched to 22,300 tons during Q4FY10, up by 119% (QoQ) and 21% (YoY)) on account of revival in global steel and stainless steel demand. Sequentially, average realizations for the segment remained flat at Rs. 56,491/ton; however YoY, realisation improved by 43%. The segment contributed 37% to the overall sales of the company for the quarter. EBIT of ferro alloy segment stood at Rs.93 mn as compared to a loss of Rs.432.5 mn during Q4FY09.

Silico manganese production for the year FY10 was 27,665 tons, Ferro Chrome was 14,555 and ferro manganese at 207 tons. Against our expectations of Rs.2.6 bn, revenues of ferro alloys division were reported as Rs. 3.2 bn in FY10; however this is 48% lower over FY09.

Power Segment

During Q4FY10, NBVL's sales from power segment declined by 10% (YoY) and 6% (QoQ) to Rs 1.9 bn, 22% lower than our estimates. The decline can be attributed to fall in power tariff. Blended tariff of power slipped by 17% (YoY) and 5% (QoQ) to Rs 4.81/unit. The company sold 402 mn units of power in Q4FY10 which was a drop of ~2% (QoQ) but a growth of 9% (YoY). EBIT of the segment recorded a decline of ~17% (QoQ) and ~21% (YoY).

Power sales for FY10 grew by 16% (YoY) to Rs. 8.3bn against our estimates of Rs.8.7 bn. Power generation for the year grew by 9% to 1563.3 mn units and similarly sales grew by 10% to 1575.75 mn units. However, merchant power realizations registered a dip of 3% (YoY) to Rs. 5.25/unit for FY10.

Sugar Segment

Sugar sales for Q4FY10 were Rs.192.54, stood flat (QoQ) while dipped 22% (YoY). During Q4FY10, sugar segment registered a negative EBIT of Rs. 29mn as sugar sales de grew by 20% (QoQ) and 53% (YoY). Moreover, sugar prices also slipped sharply during this period from Rs 40/kg to Rs 28/kg. Nevertheless, sugar production doubled by 216% QoQ and grew 37% YoY to 21,817 tons, being the crushing period. Sales volume remained subdued at 4556 tons, 20% lower QoQ and 53% lower YoY.

The sugar segment sales clocked 37% growth for FY10 to Rs.852 mn.

Annual review

The consolidated net sales for FY10 reported de-growth of 13% at Rs.11.7 bn which was 7% lower than our estimates. As discussed above, sales were dragged by a poor performance of ferro alloys segment during the year. Ferro alloy realisation as well as volume slipped sharply in later half of FY09; as a result of that the company strategically cut its ferro alloy production in FY10, considering the weak demand outlook. Moreover, realizations of ferro alloy products were below the profitable zone for the company for a large part of the first half of the year. Hence, ferro alloy sales declined by ~48% in FY10 (YoY). Nevertheless, sugar and power segment sales grew respectively at 16% and 37% respectively during FY10 over FY09.

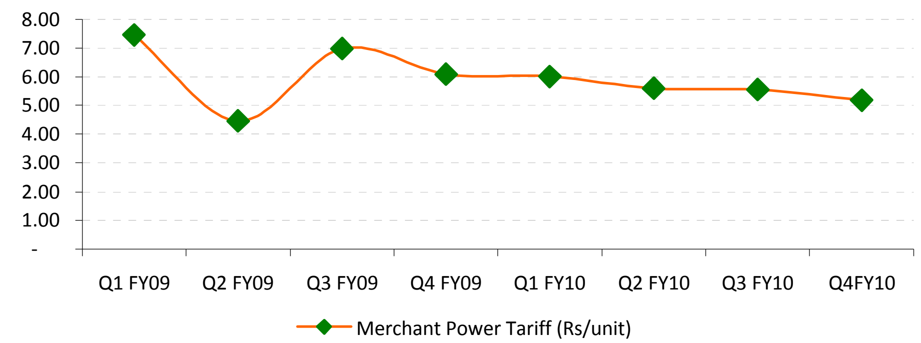
Consolidaed Result (Rs mn)	FY09	FY10	YoY %
Net Sales	13,364	11,659	(12.8)
Expenditure	7,517	6,191	(17.7)
EBITDA	5,846	5,468	(6.5)
EBITDA margin (%)	43.7	46.9	
Other Income	320	354	10.7
Interest	332	296	(10.9)
Depreciation	381	447	17.3
Extraordinary	(185)	-	(100.0)
PBT	5,638	5,079	(9.9)
Tax	433	124	(71.3)
Effective tax rate (%)	0.1	0.0	
PAT	5,206	4,955	(4.8)
Net Margin (%)	39.0	42.5	

As in ferro alloy segment, raw material is significant part of revenue; raw material costs declined by 31% (YoY) to Rs. 2.2 bn, reflecting lower production of ferro alloy in FY10. Operating expenses slid 18 % to Rs. 6.2bn mainly on account of lower raw material cost. EBITDA for FY10 was Rs.5.46 bn, 6% lower in FY10, on a sales decline of ~13%. This indicates that EBITDA margin expanded by 315 bps (YoY) to 47 % in FY10 as low margin business, ferro alloy contribution declined and high margin, power business contribution improved. Power segment contributed 70% of sales during FY10 against 51% in FY09 and ferro alloy contributed to total sales ~27% against 44% in FY09. Power segment generated 61% margin at EBIT level while ferro alloy reported EBIT margin of only 1.3%. Sugar segment managed to generate EBIT margin of ~12% during FY10. Hence, EBITDA margin expanded despite a 13% decline in sales numbers in FY10.

The financial expense of the company de grew by 11% to Rs.296 mn in FY10, which was lower than our estimate of Rs.345 mn. Depreciation rose by 17% (YoY) in FY10 to Rs. 447, lower than our estimate of Rs. 475 mn. Profit before tax (PBT) fell by 10% to Rs.5079 mn, 8% below our estimates. The total tax outgo of NBVL for FY10 amounted to Rs.124 mn as compared to Rs. 433 mn a year ago mainly on account of substantial MAT credit availed by the company in FY10. The current tax increased 26% to Rs.745 mn; however, total MAT credit availed by the company was significantly higher at Rs.612 mn (166% up YoY). PAT for FY10, registered a marginal decline of 5% to Rs. 4955 mn which was inline with our estimates for FY10. Consequently, diluted EPS of NBVL stands at Rs 55.81 during FY10.

Concern: Merchant power prices have slipped over last year but to hover in Rs 4.5-5 range

NBVL - Merchant Power Tariff (Rs/unit)



Source: Company, Karvy Institutional Research

We are concerned on the falling merchant power rates over last year. Merchant power rates of NBV have come down by 15% (YoY) and 6% (QoQ) to Rs 5.2 in Q4FY10. Average annual merchant power rate of NBV was reported as Rs 5.6/unit in FY10 against Rs 5.8/ unit in FY09, indicating 4% decline. We believe major reasons for the fall in merchant rates are;

1. On account of gas supply from KG Basin to gas based power plants, incremental power reached the market during FY10. The power sector, the biggest consumer (~47% of output) of K-G gas, was sold about 18 MSCMD of gas in FY10, helped to improve out put in 4,745 MW gas based capacities. However, this incremental supply of gas to improve output of gas based power plant is one time even, pressuring merchant rates.

2. FY09 was an election year and there was fewer power cuts to consumers, while in FY10, power sold was less on account of the normal power cuts.

Merchant rates are likely to soften in FY11:

Average merchant rate till date (since April 2010 to 15th June 2010) is Rs 5.5/unit, in Power Exchange India (PXIL), against Rs 6.3/unit during same period last year. We have seen a price correction in the month of May and June of 2010, which in our view in anticipation of better monsoon (indicating higher output from hydro sources) during FY11 than FY10. Hence, we opine that merchant power prices should hover around Rs 4.5 - Rs 5/ unit for next two years. We have revised down our annual average merchant power rates by 14% to Rs 5/unit for FY11 and by 16% to Rs 4.75/unit for FY12 for NBV. As NBV is having generation units in Orissa and Andhra Pradesh, we have exhibited merchant rates of those two regions only.

Price trend (Rs/unit)	AP	Orissa
Mar	2.88	2.88
Feb	3.27	2.99
Mar	6.68	5.00
April	8.09	7.84
May	4.62	4.56
Jun*	3.49	3.49
Q1 FY11e (Avg)	5.40	5.30

*Source: IEX, * till 15th of June 2010*

Revision in FY11 & FY12 Numbers:

As per the Q4 and FY10 results and our recent interaction with management we have revised our FY11 and FY12 numbers. We have revised down FY10 sales estimate by ~7% to Rs 12,928 mn, primarily on account of 14% down ward revision (based on the above discussed reason) in blended power tariff to Rs 4.5/unit and 13% cut in sugar realisation. We have revised merchant power tariff by 14% to Rs 5/unit for FY11 and by 16% to Rs 4.75/unit for FY12. Consequently our revised blended price stands at Rs 4.5/unit and Rs 4.4/unit. Similarly on account of above revision, we have trimmed down our FY12 sales estimate by 8% to Rs 15795 mn.

Our revised EBITDA for FY11 stands at Rs 5213 mn, 18% lower than previous estimates. For FY12, we revise EBITDA by 14% to Rs 6674 mn. This reflects EBITDA margin of ~40% in FY11 and 42% in FY12. Consequently, we have cut our PAT estimates by 14% to Rs 3922 mn in FY11 and by 11% to Rs 4587 mn in FY12. Our revised EPS for FY11 and FY12 are Rs 44 and Rs 52 respectively.

Valuation:

Currently the stock is trading at 10X its FY11 and 8x its FY12 earnings. Also, it is available at EV/EBITDA multiple of 8x and 7x that of FY11 and FY12 estimates. However, we have valued the company on SOTP method, considering that most of the growth initiatives undertaken by the company would reflect in earnings FY13 onwards. Nevertheless, considering above discussed revision in our estimates, we have revised down our target price by 12% to Rs 485/share. We have revised down our EV/MW valuation multiple for the existing capacities from 60x to 55x. More over, lower EBITDA from sugar business has also contracted valuation of sugar business. Hence, we downgrade our rating from BUY to **Market performer**.

Stock Ratings		Absolute Returns
Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%
Sell	:	<(25%)

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Disclosures Appendix

Analyst certification

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