Nava Bharat Energy India Limited (Revised)

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	60.00	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]	Revised from CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]
Long-term / Short-term bank facilities	10.00	CARE A (CE); Stable / CARE A1 (CE) [Single A (Credit Enhancement); Outlook: Stable/ A One (Credit Enhancement)]	Revised from CARE A- (CE); Stable / CARE A2+ (CE) [Single A Minus (Credit Enhancement)]; Outlook: Stable / A Two Plus (Credit Enhancement)]
Total bank facilities	**70.00 (₹ Seventy crore only)**		

Details of instruments/facilities in Annexure-1.

@The ratings are based on credit enhancement in the form of an unconditional irrevocable corporate guarantee extended by holding company; Nava Limited (NAVA).

Unsupported rating	**CARE BBB; Stable/ CARE A3 (Triple B; Outlook: Stable/A Three) [Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable), Reaffirmed]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers for the credit enhanced debt

The revision in the ratings assigned to the bank facilities of Nava Bharat Energy India Limited (NBEIL) is based on the credit enhancement in the form of unconditional irrevocable corporate guarantee extended by Nava Limited (NAVA). The revision of the ratings considers improvement in the operational and financial performance in FY22 (refers to the period April 01 to March 31) and H1FY23.

The credit profile of NAVA further derives strength from the experienced management backed by strong and resourceful promoter group, established track record of operations, integrated nature of ferro alloys operations with captive power generation thereby resulting in superior margins, strategic location of the plant, strong capital structure and debt coverage indicators. The strengths are, however, tempered by the high exposure towards group companies, working capital intensive nature of business, termination of long-term agreement with Tata Steel Mining Limited (TSML) for the ferrochrome division, and derived demand of ferroalloys segment with cyclical nature of the steel industry. The ratings strengths are also tempered by the susceptibility to volatility in raw material prices, high inventory days, and absence of power purchase agreements (PPAs) for power generation vertical operated under subsidiary, NBEIL, resulted in increased support to the entity.

Rating sensitivities for the guarantor; NAVA

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the total operating income (TOI) to more than ₹2,000 crore with PBILDT margins above 20% on a sustained basis.
- Tie-up of PPA for the power segment and improved revenue/profit from said division.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Weakening of the financial risk profile with slowdown of business operation and/or decline in profitability below 15% on a sustained basis.
- Any significant increase in group exposure with an impact on cash flow position.

Key rating drivers of Nava Bharat Energy India Limited (NBEIL) for unsupported/standalone rating

The revision in the unsupported ratings assigned to the bank facilities of Nava Bharat Energy India Limited (NBEIL) considers improvement in the operational and financial performance in FY22 and H1FY23. The ratings continue to derive strength from the strong and resourceful promoter group (Nava Bharat Group) with established track record of operations, significant promoter support received by way of take-over of external term debt through inter-corporate loan advanced by NAVA and corporate guarantee extended for working capital facilities, strategic location of plant with close proximity to The Singareni

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Collieries coal belt, satisfactory capital structure and adequate liquidity position. The ratings are constrained by volatile revenue stream associated with merchant power sale, absence of any fuel supply arrangement (FSA) resulting in the risk associated with fluctuation in coal prices and company's plan to withdraw conversion for plant to captive power plant due to reluctance of state power distribution utility to provide open access.

Rating sensitivities for NBEIL

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in TOI to more than ₹400 crore with PBILDT margins above 35% on a sustained basis.
- Tie-up of long-term PPA for the existing capacity.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Sustained sub-optimal capacity utilisation because of availability of coal at competitive rates and generated power prices, impacting coverage metrics.

Detailed description of the key rating drivers of the guarantor: NAVA

Key rating strengths

Improvement in financial performance in FY22: The financial performance of NAVA improved significantly with rise in TOI by 64% for FY22 to ₹1,693.93 crore from ₹1,035.04 crore in FY21. The rise in the revenue was resultant of higher volume of production and sale of metal alloys, which improved from 1.52 lakh MT in FY21 to 1.66 lakh MT in FY22. The rise in the volume coupled with higher realisation for both ferro alloys and ferrochrome segment of metal division for FY22. The power division of the company also shown an improvement in the performance with resumption of operation at 60-MW power plant in Odisha. The company was benefitted with surge in power prices intermittently during the year. The company generated 75% of its revenue from its ferroalloys division (both silicon manganese and ferrochrome conversion), followed by 17% from power division, while balance 7% from O&M services provided to MCL. NAVA receives a steady additional revenue through these O&M services. The domestic sales accounted for 62% of TOI, while 38% sale was generated from export orders.
Furthermore, the financial risk profile of NAVA continued to be healthy in H1FY23 with TOI of ₹831.68 crore (H1FY22: ₹708.25 crore) with PBILDT of ₹255.46 crore (₹212.24 crore) and profit after tax (PAT) of ₹227.73 crore (₹143.79 crore).

Satisfactory operational performance: The company reported satisfactory growth in its standalone operations during FY22, backed by solid traction in the manganese alloys business in both export and domestic markets coupled with higher power sales over energy exchanges. Ferro chrome conversion continued its stable performance and provided stability in the overall earnings. The power division has witnessed a noticeable improvement, backed by the operationalisation of 60-MW IPP in Odisha. The capacity utilisation for metal business segment has improved from around 77% in FY21 to around 83% in FY22 backed by rise in Chromium alloys production by around 18% from 57,109 MT in FY21 to 67,482 MT in FY22. The silico manganese operations in the segment also depicted an improved performance as the sales volume was increased from 96,036 MT in FY21 to 100,171 MT in FY22, i.e., growth of 9.4%.

Strong promoter group with established track record of operations: The Nava Bharat group, a South India-based industrial house promoted by Dr Devinenni Subba Rao and P. Punnaiah, has over four decades of existence in diverse businesses ranging from ferro-alloys, sugar & distillery, power generation, mining, etc., through its flagship company, NAVA (erstwhile Nava Bharat Ventures Limited) and its subsidiaries/step-down subsidiaries. Nava Bharat Projects Limited (NBPL) is engaged in providing services to the group company, M/s. Nava Energy PTE. Limited, Singapore, in relation to project management and technical support services under O&M contract for 300-MW power plant of Maamba Collieries Limited at Maamba, Zambia. The group has also expanded its presence overseas with successful commencement of commercial operation of 300 MW of thermal power plant in Zambia (coal production commenced in FY13 and power generation started from August 2017).

Strategic plant location: Nava's plant has a proximity to coal mining belt of Singareni Collieries Company Ltd (within 25 Km radius) (SCCL), which helps the company to efficiently procure domestic coal through e-auctions without much difficulty. Furthermore, the imported coal (when required) can be procured from Kakinada Port, which is around 275 km from the plant location. As sources for procurement of coal is not very far, the transportation cost becomes cheaper as well as loss in transit is mitigated to a great extent. This also makes it cheaper to procure imported Ferro Manganese.

Integrated operations captive power generation supporting the ferro alloys division: NAVA produces Silico Manganese and Chromium alloys for companies across India, the Middle East, East Asia, and Europe. It operates two plants of 200,000 MTPA in Paloncha, Telangana, and the other plant in Kharagprasad, Odisha. NAVA has captive power plant to facilitate the power intensive ferro alloy division. NAVA's 125,000 MTPA silico-manganese manufacturing facility in Telangana is supported by a 114-MW captive power plant, while the other plant in Odisha is supported by a 90-MW captive power plant. Out of total capacity of 204 MW, around 55% in FY22 is used for captive generation and balance is sold on short-term power purchase agreement basis or merchant exchange. This apart, NAVA has 60-MW power unit (based on coal), which was non-operational due to metering issues with transmission utility. However, the same commenced operations in May 2021.

Strong capital structure backed by healthy debt coverage indicators: NAVA has a strong capital structure manifested by overall gearing of 0.06x as on March 31, 2022 (0.06x as on March 31, 2021) on account of accretion of profits to net worth coupled with timely repayment of term loans. The low debt level and robust net worth position has supported the capital structure despite significant investment and advances to group entities. The other debt coverage metrics have also been at comfortable level with interest coverage ratio of around 45x and TD/GCA of 0.32x in FY22.

Key rating weaknesses

Risk associated with foreign exchange fluctuation: NAVA fulfils its requirement of the raw material from countries, viz., in South Africa, Australia and Ivory Coast and exports about 38% of the Ferro alloys across Europe, the Middle East and East Asia resulting in risk associated with forex fluctuation. The company does not have any forex hedging mechanism in place, with volatility in forex fluctuations being naturally hedged. The exports of the company in absolute value are always higher (₹623.72 crore in FY22) than the import value (₹239.24 crore for FY22), resulting in a natural hedge for the company. NAVA reported forex gain of ₹0.67 crore in FY22 (as against forex loss of ₹1.61 crore in FY21).

High exposure towards group companies: NAVA has high exposure to its group companies in the form of investments, loans & advances, and corporate guarantee extended to NBEIL. The aggregate funded exposure was ₹1,916.78 crore as on March 31, 2022 (₹1,885.04 crore as on March 31, 2021). The same accounts for nearly 58% of the tangible net worth (around ₹3,296 crore) as on same date. The company has highest exposure in Nava Bharat (Singapore) Pte. Ltd., around 80% of total which is the investment arm and holding company of the overseas strategic investments in coal mining and power generation, principal investment being in Zambia. The majority debt availed by the said subsidiaries are non-recourse and there is no additional support envisaged to such entities. Any incremental exposure to group entities with corresponding impact on cashflow would be important from credit perspective.

Working capital intensive business: The working capital cycle of the company has remained high at 101 days in FY22 (153 days in FY21) due to longer inventory days of 76 days in FY22 (111 days in FY21). With increase in the scale of operations and demand for steel products which is a final product, NAVA had to maintain the stock to cater to the market demand resulting in higher inventory period. The collection period usually extends to 2 months on an average, which is nevertheless realised without any delays. There are no long pending dues as reflected in the collection period of 39 days.

Termination of agreement with Tata Steel Mining Limited (TSML): NAVA had long-term agreement with TSML for conversion of ferro chrome at the Odisha unit, wherein the entire unit is dedicated for conversion work of TSML. The said unit has been operating for TSML since 2015 with contract getting renewed over the years. The last contract got renewed on November 30, 2020 (Tata Steel Mining Ltd- TSML, the mining division of TSL) with which is applicable till March 2025. The finished product is marketed and captively consumed by TSML. However, in current financial year, the agreement had been mutually terminated given the specification of end product was not in line with requirements in the agreement. In terms of total revenue, this division contributed about 15% in FY22 (FY21: around 18%). These operations had cushioned company for the volatile demand in ferro alloys industry, though providing low PBILDT of 3.8% share in the domestic operations and around 2% at group level (lower than other operations in the group). Timely completion of conversion process of plant, stabilisation of new operations and ramping-up of production would be key from the credit perspective.

Liquidity: Adequate

The company has satisfactory liquidity profile with adequate cash accrual generation (₹412.39 crore for FY22), moderate debt repayment obligation (₹33.08 crore for FY23) and a satisfactory collection efficiency. This apart, the company had free cash & bank balance of ₹186.66 crore as on March 31, 2022, along with unutilised fund-based working capital limits of ₹86 crore as on November 30, 2022.

Detailed description of the key rating drivers of NBEIL

Key rating strengths

Improved operational and financial performance: The operational performance of NBEIL has improved significantly during FY22 as the plant was up and running for 8 months during the year which was aided by availability of coal. The plant was shut for 11 months during FY21. The TOI in FY22 was ₹237.42 crore, which includes sales of power amounting to ₹205.44 crore. The operations and maintenance (O&M) income stood at ₹28.51 crore for project services rendered to Nava Bharat Zambia and other operating income. PBILDT improved on back of rise in TOI at absolute level to ₹72.43 crore in FY22 (₹18.16

crore in FY21) which resulted in net profit of ₹17.51 crore in FY22 vis-à-vis net loss of ₹20.75 crore in FY21. NBEIL also reported cash accrual of ₹58.11 crore in FY22 (cash loss of ₹0.78 crore in FY21).
During first half of FY23 of operation the company achieved a TOI of ₹160.23 crore with PBILDT of ₹49.03 crore, net profit of ₹20.61 crore for H1-FY23 and cash accruals of ₹41.16 crore.

Satisfactory capital structure: The debt profile of the company primarily comprises unsecured loans from the holding company, NAVA and working capital bank borrowings. The capital structure of the company is comfortable with large net worth base, which has resulted in a lower leverage with overall gearing ratio comfortable at 0.23x as on March 31, 2022 (0.26x as on March 31, 2021). The debt coverage metrics is also satisfactory.

Support from promoters: NBEIL receives support from the promoter that derives both operational and financial comfort from NAVA. NAVA took over NBEILs outstanding term loans through infusion of funds directly and indirectly in NBEIL. NAVA extended inter-corporate loans to the tune of ₹155 crore to NBEIL with repayment linked to availability of cash in NBEIL.

Key rating weaknesses

Volatile revenue stream: The company has been majorly selling power generated on merchant exchange due to absence of PPAs/ST PPA. Given the subdued demand dynamics of the domestic power generation sector, the volatility associated with merchant sale of power is relatively high for FY22. The company's decision to enter ST PPAs in the near term is contingent upon revival of demand in the domestic Power sector. The company has also dropped plan to convert the plant to captive power plant due to reluctance from DISCOM to grant open access permission.

Absence of long-term fuel supply agreement: The company is exposed to fluctuation in prices, given absence of any long-term fuel supply arrangement in place. The company has recently seen issues with availability of coal, and it has taken measures like transporting coal using railway rakes.

Liquidity: Adequate

The liquidity profile of NBEIL is adequate, supported by absence of external repayment obligation with entire debt being availed from holding company and repayment subject to availability of funds. The company had free cash and bank balance of ₹10.27 crore as on March 31, 2022, and ₹10.32 crore as on September 30, 2022, with unutilised working capital limits of about ₹58.4 crore as of November 2022.

Analytical approach

For Credit Enhanced ratings: CARE Ratings has based its rating on the assessment of the guarantor, NAVA, which has provided an unconditional and irrevocable corporate guarantee for the bank facilities availed by NBEIL. Furthermore, the credit profile of NAVA is analysed on standalone financials along with factoring support to be extended to subsidiaries.

For unsupported/standalone ratings: Standalone along-with factoring linkages with the parent i.e., NAVA.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Power Generation Projects
Thermal Power

About the company; Nava Limited

Nava Limited (NAVA) was incorporated in 1972 as Nava Bharat Ferro Alloys Ltd, which began operations in 1975 with a small ferro silicon manufacturing unit in Paloncha. In 1980, NAVA ventured into sugar manufacturing, with the amalgamation of The Deccan Sugar and Abkhari Co Ltd, an EID Parry company. In 1997, it set up a second ferro alloy unit in Odisha. It diversified into coal-fired power generation in 1997 as backward integration for its highly power-intensive ferro-alloy business, and later pursued the merchant power business for the surplus generation capacity. The company renamed itself as Nava Limited on July 15, 2022. NAVA was promoted by Dr. Devineni Subba Rao and is presently managed by his son, Devineni Ashok, and son-in-law, P Trivikrama Prasad. The company has two key business divisions: Ferroalloys and Power. It has installed ferroalloy capacity of 200,000 MT per annum and power generation capacity of 264 MW, of which 204 MW are primarily used for captive consumption in ferro alloys.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,035.04	1,693.93	831.68
PBILDT	175.02	550.86	255.46
PAT	78.46	347.45	227.73
Overall gearing (times)	0.06	0.06	NA
Interest coverage (times)	12.85	44.84	NA

A: Audited; UA: Unaudited; NA: Not Available

About the company; Nava Bharat Energy India Limited

Incorporated in April 2008, Nava Bharat Energy India Limited (NBEIL) has been promoted by the Nava Bharat Group of Hyderabad, Telangana. The company has set up 150-MW coal-based thermal power plant at Paloncha, Khammam district, Telangana. The company does not have any PPA, and power sale is done through merchant exchange. NBEIL is subsidiary of Nava Bharat Projects Ltd (NBPL, investment arm for projects) which is a wholly-owned subsidiary of NAVA. NBEIL has 100% effective shareholding by NAVA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	45.85	240.11	160.23
PBILDT	18.16	72.43	49.04
PAT	-20.61	18.26	20.61
Overall gearing (times)	0.26	0.23	0.19
Interest coverage (times)	1.05	7.15	NA

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	40.00	CARE A (CE); Stable
Fund-based - LT-Cash credit		-	-	-	20.00	CARE A (CE); Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	10.00	CARE A (CE); Stable / CARE A1 (CE)
Unsupported rating-Unsupported rating (Long term)		-	-	-	0.00	CARE BBB; Stable
Unsupported rating-Unsupported rating (Short term)		-	-	-	0.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	40.00	CARE A (CE); Stable	-	1)CARE A- (CE); Stable (29-Mar-22)	1)CARE A- (CE); Stable (05-Jan-21)	1)CARE BBB-; Stable (27-Mar-20) 2)CARE BBB-; Stable (07-Oct-19)
2	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	10.00	CARE A (CE); Stable / CARE A1 (CE)	-	1)CARE A- (CE); Stable / CARE A2+ (CE) (29-Mar-22)	1)CARE A- (CE); Stable / CARE A2+ (CE) (05-Jan-21)	1)CARE BBB-; Stable / CARE A3 (27-Mar-20) 2)CARE A3 (07-Oct-19)
3	Fund-based - LT-Cash credit	LT	20.00	CARE A (CE); Stable	-	1)CARE A- (CE); Stable (29-Mar-22)	1)CARE A- (CE); Stable (05-Jan-21)	1)CARE BBB-; Stable (27-Mar-20)
4	Unsupported rating - Unsupported rating (Long term)	LT	0.00	CARE BBB; Stable	-	1)CARE BBB- (29-Mar-22)	1)CARE BBB- (05-Jan-21)	-
5	Unsupported rating - Unsupported rating (Short term)	ST	0.00	CARE A3	-	1)CARE A3 (29-Mar-22)	1)CARE A3 (05-Jan-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - LT/ ST-Bank guarantee	Simple
3	Unsupported rating - Unsupported rating (Long term)	Simple
4	Unsupported rating - Unsupported rating (Short term)	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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