Nava Bharat Energy India Limited

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	60.00	CARE A (CE); Stable	Reaffirmed
Long-term / short-term bank facilities	10.00	CARE A (CE); Stable / CARE A1 (CE)	Reaffirmed

Details of instruments/facilities in Annexure-1.
@Ratings are based on credit enhancement as an unconditional irrevocable corporate guarantee extended by holding company; Nava Limited (NAVA).

Unsupported rating	**CARE BBB / CARE A3 [Reaffirmed]**

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

Rationale and key rating drivers for credit enhanced debt

Reaffirmation in ratings assigned to bank facilities of Nava Bharat Energy India Limited (NBEIL) is based on credit enhancement as an unconditional irrevocable corporate guarantee extended by Nava Limited (NAVA).

The credit profile of NAVA derives strength from its experienced management backed by a strong and resourceful promoter group, established track record of operations, integrated ferroalloys operations with captive power generation, resulting in superior margins, strategic location of the plant, healthy financial risk profile with comfortable leverage, coverage indicators led by prepayment of term loans, and adequate liquidity profile. However, ratings' strengths are tempered by moderation in total operating income (TOI) profitability in FY23 (Audited; refers to April 01 to March 31) and 9MFY24 (Unaudited), high exposure towards group companies, derived demand of ferroalloys segment with the cyclical steel industry, susceptibility raw material prices to volatility, high inventory days, and absence of power purchase agreements (PPAs) for power generation vertical operated under subsidiary, NBEIL.

Rationale and key rating drivers of Nava Limited

Rating sensitivities: Factors likely to lead to rating actions

Positive factors
- Increase in the total operating income (TOI to more than ₹2,000 crore with profit before interest, lease rentals, depreciation, and taxes (PBILDT) margins above 20% on a sustained basis.
- Tying up PPA for the power segment and improving revenue/profit from the division.

Negative factors
- Weakening financial risk profile with slowdown of business operation and/or declining profitability below 15% on a sustained basis.
- Significantly increasing group exposure, with an impact on cash flow.

Key rating drivers of Nava Bharat Energy India Limited (NBEIL) for unsupported/standalone rating
Unsupported ratings assigned to bank facilities of Nava Bharat Energy India Limited (NBEIL) continue to derive strength from the strong and resourceful promoter group (Nava 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 Limited (NAVA), and corporate guarantee extended for working capital facilities, strategic location of plant with close proximity to The Singareni Collieries coal belt, improved financial profile in 9MFY24 (UA) led by short-term power purchase agreements (PPAs), satisfactory capital structure, and adequate liquidity position. Ratings are constrained by deteriorating financial and operational performance in FY23, volatile revenue stream associated with merchant power sale, absence of fuel supply arrangement (FSA) resulting in risk associated with coal price fluctuation and the 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: Factors likely to lead to rating actions: NBEIL

Positive factors
- Increasing TOI to more than ₹400 crore with PBILDT margins above 35% on a sustained basis.
- Tying up long-term PPA for existing capacity.

Negative factors

- Sustained sub-optimal capacity utilisation for coal available at competitive rates and generating power prices, impacting coverage metrics.

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 bank facilities availed by NBEIL. NAVA's credit profile is analysed with standalone financials and factoring support to be extended to subsidiaries.

For unsupported/standalone ratings: Standalone; factoring financial and management linkages with the parent, NAVA.

Outlook: Stable

Stable outlook reflects the company's healthy capital structure and liquidity position, strengthened by its low debt levels and ample cash reserves.

Detailed description of key rating drivers of the guarantor: Nava Limited

Key strengths

Strong promoter group with established track record of operations

The Nava Bharat group, a South India-based industrial house promoted by Dr Devineni Subba Rao and P Punnaiah, has over four decades of existence in diverse businesses ranging from ferroalloys, sugar & distillery, power generation, and mining among others, 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 operations and maintenance (O&M) contract for 300-MW power plant of Maamba Collieries Limited at Maamba, Zambia. The group has presence in Zambia (expanded its presence overseas with successful commencement of commercial operation of 300 MW of thermal power plant 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 Limited (within 25 Km radius) (SCCL), which helps the company efficiently procure domestic coal through e-auctions. 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 far, transportation cost becomes cheaper and 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 ferroalloys 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 ferroalloy 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. Of the total capacity of 204 MW, around 53% in FY23 is used for captive generation and balance is sold on short-term PPA basis or merchant exchange. NAVA also has a 60-MW power unit (based on coal), which was fully operational in FY23.

Strong capital structure backed by healthy debt coverage indicators

NAVA has a strong capital structure supported by overall gearing of 0.04x as on March 31, 2023 (0.06x as on March 31, 2022) from accretion of profits to net worth and 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. Other debt coverage metrics have also been at comfortable level with interest coverage ratio of around 32x and total debt to gross cash accruals (TD/GCA) of 0.39x in FY23. As of October 2023, NAVA repaid the full outstanding term loan and is now entirely long-term debt free on a standalone basis.

Key weaknesses

Subdued financial performance in FY23 and 9MFY24

The company's TOI, on a standalone basis, slightly declined but remains satisfactory at ₹1618.84 crore in FY23 compared to ₹1693.93 crore in FY22 due to lower volume of production and sale of metal alloys, which reduced from 1.72 lakh MT in FY22 to 1.32 lakh MT in FY23. The reduction in volume was due to drop in silico-manganese business with lower export demand and decrease in realisations owing to macroeconomic conditions.

However, the company's power division has shown improvement with sale of 47% of power generated through short-term PPA or IEX platform in FY23 compared to 45% in FY22. This was aided by resuming 60 MW power plant in Odisha for the entire year.

The company was benefitted with surge in power prices intermittently in the year. The company generated 66% of its revenue from its ferroalloys division (both silicon manganese and ferrochrome conversion), followed by 25% from power division, while balance 9% from O&M services provided to MCL. NAVA receives steady additional revenue through these O&M services. The domestic sales accounted for 56% of TOI, while 44% sale was generated from export orders.

The PBILDT margin declined in FY23 to 24.61% (FY22: 32.52%). This decline can be attributed to restrained performance of the ferroalloy sector, which was negatively influenced by dependent steel markets. These steel markets faced challenges due to unfavourable export duties in the latter part of the review year. Cost of materials as a percentage of total income increased to 63% in FY23 (FY22: 46%), resulting in declining PBILDT margin.

The financial risk profile of NAVA continued to remain subdued in 9MFY24 with TOI of ₹1129.40 crore (9MFY23: ₹1208.52 crore) with PBILDT of ₹229.60 crore (₹333.02 crore) and profit after tax (PAT) of ₹149.32 crore (₹254.05 crore).

Risk associated with foreign exchange fluctuation
NAVA fulfils its raw material requirement of from countries including in South Africa, Australia, and Ivory Coast, and exports about 44% ferroalloys across Europe, the Middle East, and East Asia, resulting in risk associated with forex fluctuation. The company does not have forex hedging mechanism in place, with forex fluctuation volatility being naturally hedged. Exports of the company in absolute value are always higher (₹700.89 crore in FY23) than the import value (₹297.32 crore for FY23), resulting in a natural hedge. NAVA reported forex gain of ₹0.77 crore in FY23 (PY: ₹0.68 crore).

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. Aggregate funded exposure was ₹1908 crore as on March 31, 2023 (₹1886 crore as on March 31, 2022). This accounts for nearly 54% of the tangible net worth (~₹3531 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 overseas strategic investments in coal mining and power generation, principal investment being in Zambia. Majority debt availed by these subsidiaries are non-recourse and there is no additional support envisaged to such entities. Incremental exposure to group entities with corresponding impact on cashflow would be important from credit perspective.

Working capital intensive business
The company's working capital cycle has remained high at 146 days in FY23 (101 days in FY22) due to longer inventory days of 120 days in FY23 (76 days in FY22). Significant increase in inventory days at year end was due to increase in inventory levels of raw material and finished goods procured for Odisha ferroalloys unit, where the management from December 2022 had shifted to manufacturing of silico manganese for itself and had discontinued ferrochrome conversion agreement with Tata Steel Mining Limited. The collection period usually extends to two months on an average, which is realised without delays. There are no long pending dues as reflected in the collection period of 48 days.

Liquidity: Adequate
As of October 2023, the company repaid the term loan in full. It has adequate cash accrual generation ₹335 crore for FY23 and a satisfactory collection efficiency. The company also had free cash & bank balance of ₹126.87 crore as on March 31, 2023. The average CC utilisation remains low at 0.31% for 12-months ending February 29, 2024, providing adequate liquidity cushion.

Detailed description of the key rating drivers of NBEIL

Key strengths

Improvement in financial risk profile in 9MFY24
In 9MFY24, the company's financial performance improved significantly, led by increase in sale of power through short-term PPAs and the plant remaining fully operational. NBEIL achieved a TOI of ₹434.28 crore with PBILDT of ₹107.98 crore, net profit of ₹39.61 crore.

Satisfactory capital structure
The company's debt profile primarily comprises unsecured loans from the holding company, NAVA and working capital bank borrowings. Its capital structure is comfortable with large net worth base, which has resulted in a lower leverage with overall gearing ratio comfortable at 0.27x as on March 31, 2023 (0.23x as on March 31, 2022). Debt coverage metrics is also satisfactory.

As of December 31, 2023, NBEIL had prepaid three instalments to an extent of about ₹19 crore to NAVA through proceeds received from late payment surcharge.

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

Key weaknesses

Deterioration in operational performance in FY23
NBEIL's operational performance deteriorated in FY23 as the plant was operational only for six months in the year. As tariffs were lower and unremunerative, the power plant was taken for shutdown in the third week of October 2022. In the major overhaul, it was observed that diaphragms of the boiler were deformed severely and had to be changed for longer life of the overall plant. These diaphragms are not readily available and had to be manufactured on order, leading to higher-than-expected idle time of the plant. The plant was ready for operations in the last week of March 2023. CARE Ratings Limited (CARE Ratings) observes that that the utilisation level of the plant was limited until FY23 due to the absence of a long-term PPA.

Volatile revenue stream
The company has been majorly selling power generated on merchant exchange due to absence of PPAs/ST PPA. In the year, improvements were observed in terms of demand from the domestic power generation sector, however volatility tends to continue with merchant sale of power. The company has also dropped its plan to convert the plant to captive power plant due to reluctance from DISCOM to grant open access permission. However, NBEIL has entered multiple short-term PPAs and expecting a revival in performance.

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

Liquidity: Adequate
NBEIL's liquidity 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 ₹0.51 crore as on March 31, 2023, which increased to ₹21.46 crore as of December 31, 2023. Average working capital utilisation for 12-months ending as of February 29, 2024, stood at 15.37%, providing liquidity cushion.

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	The company operates in the metal and power industry, which has significant dependence on coal as a fuel. The industry features in the red list of polluting industries by the CPCB.
Social	The company engages in CSR activities, which are classified under Health, Education, Livelihood, and other Programs, which are abbreviated as HELP. The company used funds worth of ₹ 6.55 for these programmes.
Governance	Company ensures that the board of directors remains diversified currently it has 8 directors of which 4 are independent directors 3 are promoter directors and 1 is professional with experience in the field.

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Short Term Instruments
Factoring Linkages Parent Sub JV Group
Manufacturing Companies
Power Distribution Companies
Iron & Steel
Rating Credit Enhanced Debt
Thermal Power

Adequacy of credit enhancement structure: Adequate
The corporate guarantee extended by NAVA is unconditional and irrevocable, legally enforceable for the entirety of the facility and entire tenor of the working capital borrowings with payment structure being post default in nature, in compliance with the

Reserve Bank of India's (RBI's) guidance note on bank loan - credit enhanced ratings dated April 22, 2022, and subsequent FAQs dated July 26, 2022, for credit enhancement ratings. The executed corporate guarantee deeds met all required stipulations of the RBI guidance note.

About the Credit Enhancement Provider

About the company- Nava Limited

NAVA was incorporated in 1972 as Nava Bharat Ferro Alloys Limited, which began operations in 1975 with a small ferro silicon manufacturing unit in Paloncha. In 1980, NAVA ventured in 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 ferroalloy business, and later pursued the merchant power business for 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 alloy.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1693.93	1618.84	1129.40
PBILDT	550.86	398.46	229.60
PAT	347.45	320.78	149.32
Overall gearing (times)	0.06	0.04	NA
Interest coverage (times)	44.84	31.50	40.14

A: Audited UA: Unaudited; NA: Not available Note: 'these are latest available financial results'

About the company; Nava Bharat Energy India Limited

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power generation

Incorporated in April 2008, 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 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, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	240.11	193.03	434.28
PBILDT	72.43	40.79	107.98
PAT	18.26	-0.80	39.61
Overall gearing (times)	0.23	0.27	NA
Interest coverage (times)	7.15	4.57	15.49

A: Audited UA: Unaudited; NA: Not available Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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)
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BBB; Stable
Un Supported Rating-Un Supported Rating (Short Term)		-	-	-	0.00	CARE A3

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	40.00	CARE A (CE); Stable	-	1)CARE A (CE); Stable (06-Jan-23)	1)CARE A- (CE); Stable (29-Mar-22)	1)CARE A- (CE); Stable (05-Jan-21)
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 A1 (CE)	1)CARE A- (CE); Stable / CARE A2+ (CE)	1)CARE A- (CE); Stable / CARE A2+ (CE)

						(06-Jan-23)	(29-Mar-22)	(05-Jan-21)
3	Fund-based - LT-Cash Credit	LT	20.00	CARE A (CE); Stable	-	1)CARE A (CE); Stable (06-Jan-23)	1)CARE A- (CE); Stable (29-Mar-22)	1)CARE A- (CE); Stable (05-Jan-21)
4	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Jan-23)	1)CARE BBB- (29-Mar-22)	1)CARE BBB- (05-Jan-21)
5	Un Supported Rating-Un Supported Rating (Short Term)	ST	0.00	CARE A3	-	1)CARE A3 (06-Jan-23)	1)CARE A3 (29-Mar-22)	1)CARE A3 (05-Jan-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	Not mentioned specifically in the sanction letter
B. Non-financial covenants	
Corporate guarantee	Un-conditional and irrevocable corporate guarantee of Nava Limited shall be available for the entire tenor of rated bank facilities of NBEIL.

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple
4	Un Supported Rating-Un Supported Rating (Short Term)	Simple

Annexure-5: Lender details

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

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

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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