Nava Bharat Energy India Limited

March 29, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	60.00 (Enhanced from 50.00)	CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Long Term / Short Term Bank Facilities	10.00 (Reduced from 20.00)	CARE A- (CE); Stable / CARE A2+ (CE) [Single A Minus (Credit Enhancement)]; Outlook: Stable/ A Two Plus (Credit Enhancement)]	Reaffirmed
Total Bank Facilities	**70.00 (Rs. 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 Bharat Ventures Limited (NBVL).

Un Supported Rating	**CARE BBB- (Triple B Minus), CARE A3 (A Three) [Reaffirmed, Reaffirmed]**

Note : Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers of Guarantor (Nava Bharat Ventures Limited, NBVL)

The reaffirmation of ratings assigned to the bank facilities of Nava Bharat Energy India Limited (NBEIL) is based on credit enhancement in the form of unconditional irrevocable corporate guarantee extended by NBVL.

The credit profile of NBVL derives strength from 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, satisfactory financial performance during FY21 (refers to the period April 01 to March 31) with further improvement in 9MFY22, medium term agreement renewed for the ferrochrome conversion business, healthy financial risk profile with comfortable leverage and coverage indicators and adequate liquidity profile. The strengths, however, are tempered by the high exposure towards group companies, derived demand of ferroalloys segment with cyclical nature of the steel industry, susceptibility to volatility in raw material prices, high inventory days and absence of PPAs for power generation vertical operated under subsidiary NBEIL resulted in increased support to the entity. It also factors in slowdown of operations during FY21 due to lockdown imposed on account of the Covid-19 pandemic and lack of PPA for generated power.

Rating Sensitivities: (NBVL)

Positive Factors:

- Expansion of scale of operation with PBILDT margin sustaining at/above 18%.
- Tie up of PPA for the power segment and improved revenue/profit from said division.

Negative Factors:

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

Key Rating Drivers of Nava Bharat Energy India Limited for unsupported rating

The unsupported ratings assigned to bank facilities of Nava Bharat Energy India Limited (NBEIL) continue to derive strength from the strong & 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 Bharat Ventures Ltd. (NBVL) and corporate guarantee extended for working capital facilities, improvement in financial and operational profile in 9MFY22, strategic location of plant with close proximity to The Singareni Collieries coal belt, satisfactory capital structure and adequate liquidity position. The ratings also factor in proposed conversion of the unit into group captive. The ratings are constrained by volatile revenue stream associated with merchant power sale, absence of any Fuel Supply Arrangement resulting in risk associated with fluctuation in coal prices and weakened operational and financial performance in FY21.

Detailed description of the key rating drivers (Guarantor – NBVL)

Key Rating Strengths

Strong and experienced promoter group: The Nava Bharat group, a South India-based industrial house promoted by Dr. Devinenni Subba Rao and Mr P Punnaiah, has almost four decades of existence in diverse businesses ranging from Ferro-alloys, sugar & distillery, power generation, mining, etc. through its flagship company Nava Bharat Ventures Limited (NBVL) and its

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

subsidiaries/step down subsidiaries. The group has also expanded its presence overseas with successful commencement of commercial operation of 300 MW of thermal power plant in Zambia.

Strategic plant location: NBVL's plant has a proximity to the coal mining belt of The Singareni Collieries Company Ltd (within 25 Km radius) which supports procurement of domestic coal. Further, the imported coal can be procured from Kakinada Port which is around 275 km from the plant location on a need basis. Consequently, the company benefits from low transportation cost and lower loss in transit.

Integrated ferro alloys division with captive power generation: NBVL produces Silico Manganese and Chromium alloys for companies across India, the Middle East, East Asia, and Europe. NBVL operates two plants of 2,00,000 MTPA in Telangana and Odisha for ferrochrome alloys production backed by captive power plants of 204 MW. Out of total capacity of 204 MW, around 79% is used for captive generation and balance is sold on ST PPA basis or merchant exchange. Given the captive power unit, the power consumption cost has been lower at Rs.2.58/Kwh (FY20) and with power intensive manufacturing operation of ferro alloys, the captive power unit translates into superior margins for the company.

Medium term agreement for the ferrochrome division: NBVL has medium term agreement with Tata group for conversion of ferro chrome at the Odisha unit wherein the entire unit is dedicated for conversion work of Tata. The said unit has been operating for Tata since 2015 with contract getting renewed over the years. The last contract got renewed on November 30, 2020 (with Tata Steel Mining Ltd- the mining division of Tata Steel Ltd) with which is applicable till March 2025. The agreement provides for a fixed conversion price which secures the revenue.

Satisfactory operational performance: The company has been witnessing satisfactory operational performance with capacity utilization at the Ferro alloy units above 75% in FY21. Capacity utilisation for 9MFY22 improved to more than 80%, The overall capacity utilization continued to remain at about 77% in FY21 vis-à-vis 85% in FY20. The Telangana unit witnessed dip in utilization from 81% in FY20 to about 77% in FY21 given that the Indian economy underwent an economic slowdown in FY21 resulting in dip in the domestic demand for steel, impact of COVID-19 thereby directly impacting the demand-supply metrics and prices of the ferroalloys segment resulting in reduced capacity utilization. The capacity utilization however, witnessed improvement in 9MFY22, with Telangana division improving to 83% (FY21: 77%) and Odisha division at 89% (FY21: 76%).

Stable financial performance in FY21: The financial performance of NBVL has been satisfactory during FY21 albeit total operating income (TOI) marginally declined to Rs.1063.89 crore vis-à-vis Rs.1128 crore in FY20. The company generates nearly 83% of its revenue from its ferroalloys division (both silicon manganese and ferrochrome conversion) and decline in production volumes majorly from silico manganese division impacted the overall revenue during the year. However, the company was able to maintain the profit margins despite decline in revenue. The PBILDT margin remained at a satisfactory level with improvement to ~27% (PY: 22%) in FY21.

Improvement in financial performance in 9MFY22: After a period of subdued operational performance in FY21 impacted by lower demand and COVID, NBVL witnessed increased in demand from ferro alloys division led by increased demand from steel sector. Also, revenue generated from power segment increased resulting in increase in total operating income to Rs.1254 crore in 9MFY22. Capacity utilisation also increased for both Telangana and Odisha division with an annualised capacity utilisation of 83% and 89% respectively. PBILDT margin in 9MFY22 increased significantly to 34% led by increase in sales realisations. Sales realisation for Silico Manganese increased to Rs.90,754/MT (FY21: Rs.69,564/MT) and Ferro Chrome division to Rs.35,998/MT (FY21: Rs.31,726/MT).

Healthy financial risk profile: NBVL has a strong capital structure with manifested by overall gearing of 0,06x as of March 31, 2021 (0.10x as on March 31, 2020). The low debt level and robust networth 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 20.83x and TD/GCA of 0.95xin FY21.

Key Rating Weaknesses

Susceptibility to volatility in raw material prices & foreign exchange: The raw material cost forms a significant portion of the total cost of sales for NBVL with nearly 80% of the cost of sales being attributable by it in FY21.. The major inputs are Manganese Ore, Manganese Slag, Coal and Ferro Chrome Ore (supplied by TSL). The company imports nearly 50% of manganese ore from West Africa and balance through e-auctions conducted by Manganese Ore India Ltd (MOIL). While availability is not a concern, any volatility in the prices of inputs can have a significant impact on the company's profit at both the absolute and margin level. Further, the profitability is exposed to risk associated with forex movement which to an extent is offset by the natural hedging available.

High exposure towards group companies: NBVL has high exposure to its group companies in the form of investments, loans & advances and corporate guarantee. The aggregate funded exposure was Rs.1885.04 crore as on March 31, 2021 (Rs.1905.47 crore as on March 31, 2020). The same accounts for nearly 63% of the tangible networth as on same date. The company has highest exposure in Nava Bharat (Singapore) Pte. Ltd. (82% 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 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.

Stretched operating cycle: NBVL has to maintain sufficient inventory to meet the demands from its customers, Accordingly, it maintains around 5-6 months of inventory. Also, NBVL discontinued its sugar division during FY20 and part of finished goods inventory from the sugar division are held with the company post sugar season of November 2019 to March 2020. The same has consequently resulted in extension of inventory days and operating cycle during FY21. The collection period usually extends to 2 months on an average, which is nevertheless realized without any delays.

Liquidity position: Adequate
The company has a satisfactory liquidity profile with adequate cash accrual generation (Rs.184.19 crore for FY21), moderate debt repayment obligation (~30 crore for FY22) and a satisfactory collection efficiency. This apart, the company had free cash & bank balance of Rs.10.09 crore as on March 31, 2021 along with unutilized fund-based working capital more than 90% as on February 28, 2022. Free cash balances as of December 31, 2021 stood at Rs.10.23 crore.

Analytical approach:
Credit Enhancement (CE) Ratings: CARE has based its rating on the assessment of the guarantor, Nava Bharat Ventures Ltd. which has provided an unconditional & irrevocable corporate guarantee for the bank facilities availed by NBEIL. Further, the credit profile of NBVL is analysed on standalone financials along with factoring support to be extended to subsidiaries.

Unsupported Ratings: Standalone assessment of NBEIL (Factoring linkages with Parent)
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
Rating Methodology: Notching by factoring linkages in Ratings

About the Company (NBEIL):
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) (holds 74% stake in NBEIL) which is wholly owned subsidiary of NBVL. NBVL directly holds 26% stake in NBEIL and indirectly holds 100% stake in NBEIL. The thermal power unit is proposed to be converted into group captive arrangement for 51% capacity.

About the Guarantor (NBVL):
NBVL 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 Bharat 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 ferroalloy business. The company is primarily engaged in ferro alloy production through its manufacturing units located at Paloncha, Telangana (capacity of 125,000 MTPA) and Odisha (capacity of 75,000 MTPA). The units are supported by power generation capacity of 284 MW.
The company had sugar manufacturing unit of capacity 4,000 TCD sugar plant, 20 KLPD Distillery and 30 KLPD Ethanol Plant which has ceased operations w.e.f March 31, 2020.
The group also has presence in coal mining at Zambia through its step-down subsidiary, Maamba Collieries Ltd. (MCL) which has an integrated 300 MW coal and power plant in Zambia and is Zambia's largest coal mine concessionaire. The company sells power to the local utility, ZESCO under a long-term PPA.

Brief Financials (Rs. crore) - NBVL	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	1128.00	1063.89	1253.98
PBILDT	247.18	283.78	416.87
PAT	131.01	158.38	250.12
Overall gearing (times)	0.10	0.06	NA
Interest coverage (times)	12.05	20.83	45.96

A: Audited; Prov.: Provisional; NA: Not Available

Brief Financials (Rs. crore) - NBEIL	FY19 (A)	FY20 (A)	9MFY22 (Prov.)
Total operating income	248.62	45.93	172.64
PBILDT	46.23	18.24	58.86
PAT	-6.09	-20.61	16.82
Overall gearing (times)	0.45	0.26	0.24*
Interest coverage (times)	1.96	1.06	7.58

A: Audited; Prov.: Provisional; *Annualised

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE A- (CE); Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	10.00	CARE A- (CE); Stable / CARE A2+ (CE)
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE A- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BBB-
Un Supported Rating-Un Supported Rating (Short Term)		-	-	-	0.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (28-Dec-18)
2	Fund-based - LT-Cash Credit	LT	40.00	CARE A- (CE); Stable	-	1)CARE A- (CE); Stable (05-Jan-21)	1)CARE BBB-; Stable (27-Mar-20) 2)CARE BBB-; Stable (07-Oct-19)	1)CARE BBB-; Stable (28-Dec-18)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	10.00	CARE A- (CE); Stable / CARE A2+ (CE)	-	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)	1)CARE A3 (28-Dec-18)
4	Fund-based - LT-Cash Credit	LT	20.00	CARE A- (CE); Stable	-	1)CARE A- (CE); Stable (05-Jan-21)	1)CARE BBB-; Stable (27-Mar-20)	-
5	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB-	-	1)CARE BBB- (05-Jan-21)	-	-
6	Un Supported Rating-Un Supported Rating (Short Term)	ST	0.00	CARE A3	-	1)CARE A3 (05-Jan-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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-BG	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple
4	Un Supported Rating-Un Supported 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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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