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Nava Bharat Ferro Alloys Ltd

Update

Nava Bharat Ferro Alloys (NBFA), recommended at Rs.111 in Sep-03, is up 212% in 15 months to Rs.346. The stock corrected 17% from its peak of Rs.415 last month largely due to a fire at one of its plants. The company is, however, fully insured even for the loss of profit. The insurance claim is likely to be settled within this financial year itself. There will thus be no material impact on the company.

Fair Value Rs.650

Price Rs.346

+88%

The stock currently trades at 3 times and 2 times estimated EPS for FY05 and FY06 respectively. We expect its net profit to grow at 179% and 40% in FY05 & FY06 respectively. We estimate DCF fair value at around Rs.650 at 18% CoE & WACC (Rs.800 at 15% CoE). Present value of Free Cash Flows to equity over the next 4 years is 53% of the current market cap – signifying reasonable margin of safety.

Key Data

Market Cap	Rs.4.6 bn
Market Cap at fair value	Rs.8.7 bn
Shares Outstanding	13.4 mn
52 week High-Low Rs.	415 / 117
Average Daily Volume	No. of shares
BSE+NSE 365 days	65,000
BSE+NSE 30 days	68,000
BSE Scrip Code	513023
NSE Scrip Code	Navbarfero

Shareholding %

Promoters – Mar-04	50.95
Jun-04	51.05
Sep-04	50.93
Institutions – Sep-04	1.46

Stock Performance

3 months	12%
6 months	152%
12 months	56%

Multiple Valuation

	YE Mar-05E
EV/EBIT	3.2x
Market Cap/Sales	0.73x
P/E	3.0x
P/BV	1.5x

Near Term Likely Trigger

- 57% increase in ferro alloys capacity by Mar-05
- 38% increase in power generation capacity by Mar-05
- Chrome ore mining rights to be in place in 3-4 months

Key Investment Points

- Current year's growth was largely driven by rise in price realisations of its products across the board – ferro alloys, power, and sugar.
- Next year's growth will be driven by significant volume growth. We expect prices to be stable next year.
- To cater to rising demand for ferro alloys, the company embarked on significant capacity expansions. The expanded capacities are likely to be available by Mar-05.
- NBFA is likely to get mining rights for chrome ore, a key raw material, within 3-4 months. Acquisition of manganese mining companies has, however, been shelved by the government – at least for the time being.

Value Kickers

- The company is likely to become debt-free in FY06 despite a capex of around Rs.550mn and Rs.1050mn in FY05 & FY06 respectively. This gives the company leeway to grow further.

Party Poopers

- A number of new capacities are coming up for ferro alloys. Some of these are likely to commence shortly. These can cause short term dip in ferro alloys prices.
- If the company neither receives nor accounts for proportionate insurance claim for QE Dec-04, reported financial numbers may disappoint and this may impact the stock price temporarily.





Income Statement

<i>Rs. Mn.</i>	<i>Mar-04</i>	<i>Mar-05P</i>	<i>Mar-06P</i>
<i>No. of months:</i>	<i>12</i>	<i>12</i>	<i>12</i>
Revenues	4898	6282	9445
EBIT	889	2063	2889
PBT	765	1984	2881
Adj. PAT	562	1565	2181
EPS (Rs.)	42.04	117.04	163.13

Ratios

<i>No. of months:</i>	<i>Mar-04</i>	<i>Mar-05P</i>	<i>Mar-06P</i>
<i>12</i>	<i>12</i>	<i>12</i>	<i>12</i>
Revenue Growth %	21.1	27.5	55.9
EPS Growth %	88.4	178.4	39.4
RoE %	35.3	60.9	51.3
D/E x	0.9	0.1	0.0
Receivables days	27	25	25
Inventory days - FG	51	51	51
-- RM	60	45	30
Creditors days	52	45	45

Balance Sheets

<i>Rs. Mn.</i>	<i>Mar-04</i>	<i>Mar-05P</i>	<i>Mar-06P</i>
Assets			
Net Block	2350	2730	3565
Investments	38	15	212
Net Current Assets	1087	1112	1641
Liabilities			
Equity Capital	134	134	134
Reserves	1577	3030	4845
Preference Capital	0	0	0
Debt	1552	381	0
Non-Current Liab.	212	312	440

Interim Performance

<i>Rs. Mn.</i>	<i>Sep-04</i>	<i>Sep-03</i>	<i>Var</i>
<i>No. of months:</i>	<i>6</i>	<i>6</i>	<i>%</i>
Net Revenues	2989	2157	38.6
EBITDA	1041	332	213.4
Depreciation	70	52	34.7
EBIT	971	280	246.6
Interest	59	65	-10.0
Other Income	50	21	133.8
PBT	962	236	307.6
Tax	200	18	
PAT – Adj	762	218	249.7
Equity Capital	134	134	
EPS –annualised (Rs.)	114.07	32.62	249.7

Interim Ratios

<i>%</i>	<i>Sep-04</i>	<i>Sep-03</i>	<i>% point</i>
<i>No. of months:</i>	<i>3</i>	<i>3</i>	<i>Chg.</i>
Other Income/PBT	5.2	9.0	
Tax/PBT	20.8	7.7	
Material cost/sales	28.8	30.1	-1.3
Power cost/sales	22.4	27.2	-4.8
Other cost/sales	15.9	26.4	-10.5

Multiple Valuation

	<i>Mar-04</i>	<i>Mar-05P</i>	<i>Mar-06P</i>
EV/EBITDA x	6.3	3.0	2.1
EV/EBIT x	7.5	3.2	2.3
Mkt. Cap/Sales x	0.93	0.73	0.48
P/E x	8.2	3.0	2.1
Price/Book x	2.7	1.5	0.9

Free Cash Flow

<i>Rs. Mn.</i>	<i>Mar-04</i>	<i>Mar-05P</i>	<i>Mar-06P</i>
<i>No. of months</i>	<i>12</i>	<i>12</i>	<i>12</i>
NOPLAT	651	1627	2187
Change in Net Working Capital	158	206	633
Operating Cash Flows	493	1421	1554
Net Capex & others	246	128	708
Free Cash Flow	247	1293	846
Non-opr. Cash flow	17	1	7
Cash Flow to Investors	264	1294	854

Financing Cash Flow

<i>Rs. Mn</i>	<i>Mar-04</i>	<i>Mar-05P</i>	<i>Mar-06P</i>
<i>No. of months:</i>	<i>12</i>	<i>12</i>	<i>12</i>
Post-tax Interest	108	63	12
Repayment/ (issue) of Debt	113	1171	381
Equity Share	44	84	264
Dividend			
Buyback/Redn/ (issue) of equity shares	0	0	0
Increase in excess cash	(2)	(23)	197
Financing Cash Flow	264	1294	854

DCF Valuation

	<i>Rs. Mn.</i>	<i>%</i>
<i>Key Assumptions</i>		
Terminal Growth Rate		1.0
WACC		18.0
Cost of Equity		18.0
<i>DCF Valuation</i>		
NPV FY05 to FY08	4698	
NPV Terminal Cash Flows	6130	
PV of non-operating assets	274	
Contingent Liabilities @ 100%	156	
Enterprise Value	10,947	
Debt, Pref. Cap, PV of NCL	2,253	
Equity Value	8,694	
<i>Fair Value Range (Rs.)</i>	570-730	
Per share Value (Rs.)	650	
Stress Value per share (Rs.)	445	



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