

Recommendation

NAVA Ltd.		BUY
Current Market Price (CMP) Rs. 294	Target Price Rs. 480	

Our price target of Rs. 480 offers upside of approximately 63% from current market price, over a 2 year period.

Nava's Key Businesses

- A total of 414 MW thermal power plant in India across 2 locations – Odisha and Telangana and a 29 MW Bagasse based power plant in Andhra Pradesh
- 2 Silico manganese plants in Odisha and Telangana, in India – total capacity 175,000 tons.
- Owns & operates an integrated mine to mouth 300 MW thermal power plant in Zambia, Africa, through a 65% subsidiary Maamba Collieries Ltd (MCL)
- Company also has interest in healthcare, mining, as also commercial agriculture.

Why the stock underperformed ?

- Inability of the Zambian utility to make payments for power purchased leading to mounting receivables at the Zambian Subsidiary.
- The above resulted in default on part of MCL in repayment of principal amount on the loan outstanding for the Zambian power project.

Positive Turn of Events

- MCL has substantially reduced its liabilities from US\$ 483 mn as of Dec 1, 2022 to US\$ 206 mn as on Jun 5, 2023 by paying down overdue principal instalments and other liabilities.
- Following successful resolution of arbitration against Zambia Electric Supply Corporation Ltd (ZESCO), a consent award of US\$ 518 mn was issued by the Arbitration Tribunal in London in favour of MCL in Dec 2022, for the recovery of outstanding receivables, ZESCO has proposed to discharge a total US\$338mn by Dec 2023 and the balance USD 180 mn by Dec 2024. Till early Jun 2023, MCL has received US\$181 mn after the favourable arbitration award, including a recent payment of US\$ 60 mn and this would further help to reduce the long term debt. With a lighter debt burden, MCL is now well positioned to reward its principal owner, NAVA Ltd. This inflow from MCL is likely to be passed on to NAVA shareholders as increased dividends.
- Effective May 2022, MCL and its customer ZESCO entered into a revised tariff plan with other conditions, including full payment plan against supply of power, ever since MCL is realizing full payment. ZESCO has agreed to avail 245.65 MW of capacity out of the total 300 MW and MCL is free to sell the balance on the common grid of South African Power Pool (SAPP).



NAVA Ltd. - BUY

Strong Operational & Financial Show in FY23:

- MCL has achieved an excellent power plant availability of 91.9 pc in FY23, the highest since the start of power generation in 2016. MCL's coal mining division saw notable improvement in external coal sales during the 2nd half of FY23, due to strong marketing efforts and bulk consumer contracts. MCL is now also a member of SAPP. Thus, in case of any further problems with ZESCO offtake, MCL can always resort to power sales in the SAPP. As of now, ZESCO is taking 100% of the power produced by MCL and paying 100% of the amount due.
- The 2nd phase of the 300 MW power plant in MCL can happen at ease since all the auxiliaries are present in the current site. This may be done at a fairly low capital cost since the coal mine development expenses are done.
- Nava posted a strong 40.6% in consolidated PBT to Rs.1266 crs in FY23 on the back of an 7.8% growth in consolidated sales to Rs.3928 crs. The EBIDTA margin was a high 50.1%. This was due to an exceptional performance from MCL in FY23, wherein it's power generation went up by 39.2%, EBIDTA grew 60% to US\$ 182 mn and PAT grew a whopping 4.7x to USD 105mn.
- The success of the Odisha based 150MW power plant and strong show from the manganese alloy business, particularly in the first half of FY23 also contributed significantly to the consolidated performance of NAVA in FY23. The Manganese alloy business is on a good footing to increase volumes due to firm contracts for raw materials and finished alloys. NAVA has stopped doing contract manufacturing of ferro chrome for Tata Steel since Dec 2022 and has dedicated the facility to the production of Manganese alloys.
- NAVA also sells a fair bit of merchant power in the power exchange, IEX, and benefits from spikes in spot prices of power in the summer months in India.

Recommendations

- NAVA posted a consolidated EPS of Rs.64 in FY23. The markets were giving a low valuation to this stock due to the uncertainty surrounding its receivables in MCL. With this issue now resolved, we expect this stock to slowly trade at a fair valuation and thus, our aggressive price target.
- There is a possibility of selling the excess land that NAVA holds in Hyderabad and these may result in good one-time dividend payouts since the standalone entity has negligible debt.
- Promoters hold 49% of NAVA and FPIs own 9% but DIIs own negligible stake. There is a possibility of rise in the DII holding, as the cloud of uncertainty lifts on its Zambian business. Also, substantially higher dividend may push conservative investors towards this stock soon.

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