

# Neyveli Lignite Corporation

Rating: ▼

Target price: ▼

EPS: ◀▶

CMP

Rs. 82

Absolute

Add

Target

Rs. 84

Relative

Underperform

## Reasonable operational performance with PLFs just under 80%; continued delays in stabilization of the new lignite based stations

- On a standalone basis, revenues remained flat qoq but improved by 9% yoy, to Rs. 11.6bn. EBITDA came in at Rs. 3.75bn, with EBITDA margins at 32%. PAT came in at Rs. 2.76bn, flat on a yoy basis.
- PLFs for the quarter stood at 79%, largely in line with the seasonal trend and we will likely see PLFs dipping lower during 3QFY12 (winter months).
- Revenues were largely in line with our estimates, with a ~10% beat to our estimates which was driven by higher costs that passed through to topline.
- EBITDA was only ~5% above our estimates due to the compensatory effect of costs, which came in ~12% ahead of our expectations.
- Other income came in lower than our expectations, at Rs. 1.38bn vs our of Rs. 1.5bn, neutralizing the impact of the EBITDA beat at a PAT level.

### Valuation Discussion

The company, though well placed on fuel availability (captive mines exist for all the lignite based capacities), balance sheet quality as well as cost dynamics, scores poorly on execution track record and growth potential. Weighing these factors in balance we preferred the stock, as a quality defensive name with a near term growth potential due to capacities that are expected to turn operational. However, continued delays (due to technical reasons) in the commissioning of the new plants represent a serious risk to the profitability of the company, particularly FY13E. Also, assuming the Mining Bill is passed (as it is), it will mean that NLC will need to part with 26% of its mining profits (~80% of company level profits), representing a significant risk to the company's profitability.

Given these risks to near term profitability, we turn negative on the counter and value the stock at 1.1x FY13E P/BV (stock has traded above this multiple for 95% of trading days in the last 4 years) yielding a target price of Rs.84/ share (earlier Rs. 107). **Downgrade to Underperform.**

### Financial summary

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	BV (Rs.)	P/BV (x)
FY11	39,491	12,861	12,984	67.0	1.2
FY12E	55,682	19,487	11,340	71.4	1.1
FY13E	57,206	19,273	12,044	76.3	1.1

### 2QFY12 Update

Date: Nov 10, 2011

#### Market Data

SENSEX	17362
Nifty	5221
Bloomberg	NLC IN
Shares o/s	1,678mn
Market Cap	Rs. 137bn
52-wk High-Low	Rs. 181-75
3m Avg. Daily Vol	Rs. 26mn
Index member	BSEPOWR

#### Latest shareholding (%)

Promoters	93.6
Institutions	04.9
Public	01.5

#### Stock performance (%)

	1m	3m	12m
NLC	9%	-8%	-48%
Sensex	5%	1%	-16%
BSEPWR	3%	-5%	-30%

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# Neyveli Lignite Corporation

## Quarterly Financial Results

<b>CMP</b>	Rs. 82	<b>Absolute</b>	Add
<b>Target</b>	Rs. 84	<b>Relative</b>	Underperform

Standalone								
Rs. mn \ Period	30-Sep-11	30-Sep-10	YoY Growth	30-Jun-11	QoQ Growth	FY11	FY12E	Annual Growth
<b>Revenues</b>	<b>11,588</b>	<b>10,632</b>	<b>9%</b>	<b>11,561</b>	<b>0%</b>	<b>39,491</b>	<b>55,682</b>	<b>41%</b>
Raw material cost	1,393	1,269	10%	1,081	29%	8,517	12,307	44%
Employee cost	4,332	3,660	18%	4,943	-12%	14,008	20,240	44%
SG & A Expenses	2,118	2,146	-1%	1,995	6%	4,105	3,648	-11%
Total expenditure	7,844	7,074	11%	8,019	-2%	26,630	36,195	36%
<b>EBITDA</b>	<b>3,745</b>	<b>3,558</b>	<b>5%</b>	<b>3,542</b>	<b>6%</b>	<b>12,861</b>	<b>19,487</b>	<b>52%</b>
<i>Margins</i>	32.3%	33.5%		30.6%		32.6%	35.0%	
Other income	1,377	1,664	-17%	2,691	-49%	9,704	5,870	-40%
Interest	299	270	11%	426	-30%	1,591	3,806	139%
Depreciation	901	1,036	-13%	954	-6%	4,129	6,224	51%
PBT	3,921	3,916	0%	4,853	-19%	16,846	15,327	-9%
Tax	1,163	1,179	-1%	1,425	-18%	3,862	3,988	3%
<i>Effective tax rate</i>	29.7%	30.1%		29.4%		22.9%	26.0%	
<b>PAT</b>	<b>2,758</b>	<b>2,737</b>	<b>1%</b>	<b>3,428</b>	<b>-20%</b>	<b>12,984</b>	<b>11,340</b>	<b>-13%</b>
<i>Margins</i>	23.8%	25.7%		29.7%		32.9%	20.4%	
EPS (Rs.)	1.64	1.63	1%	2.04	-20%	7.74	6.76	-13%

# Neyveli Lignite Corporation

## Business Overview

<b>CMP</b>	<b>Rs. 82</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 84</b>	<b>Relative</b>	<b>Underperform</b>

### Actual vs. Estimates

2QFY12	Actual	Spark Estimate	Delta
Revenue	11,588	10,562	9.7%
EBITDA	3,745	3,547	5.6%
Margin (%)	32.3%	33.6%	-1.3%
PAT	2,758	2,748	0.3%
Margin (%)	23.8%	26.0%	-2.2%
EPS	1.64	1.64	0.3%

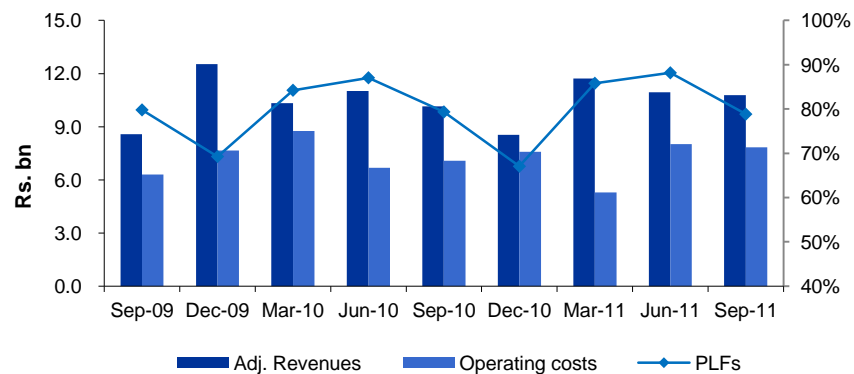
All figures in Rs. mn, except EPS, which is in Rs.

### Key estimate revision

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	55,682	55,682	0.0%	57,206	57,206	0.0%
EBITDA	19,487	19,487	0.0%	19,273	19,273	0.0%
Margin (%)	35.0%	35.0%		33.7%	33.7%	
PAT	11,340	11,340	0.0%	12,044	12,044	0.0%
Margin (%)	20.4%	20.4%		21.1%	21.1%	
EPS	6.76	6.76	0.0%	7.18	7.18	0.0%

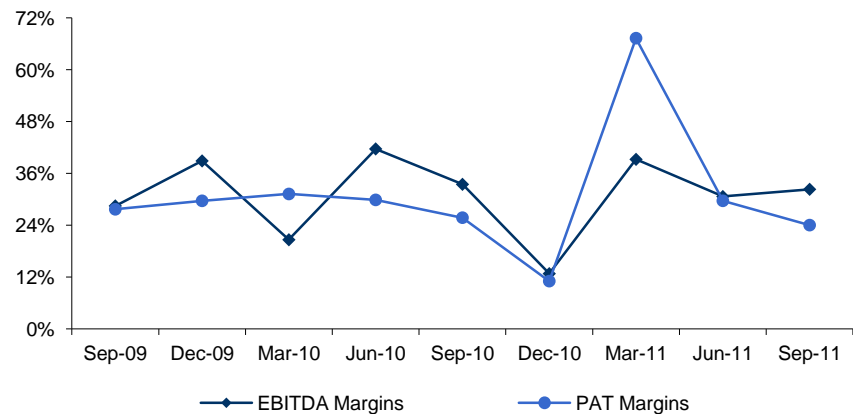
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### Moderate quarter with PLFs lesser than 80%



Source: Company, Spark Capital Research

### EBITDA margins in line with the normal trend



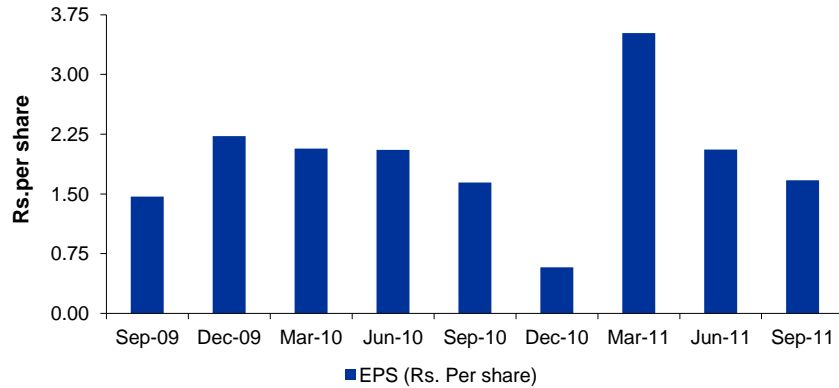
Source: Company, Spark Capital Research

# Neyveli Lignite Corporation

## Business Overview and valuation

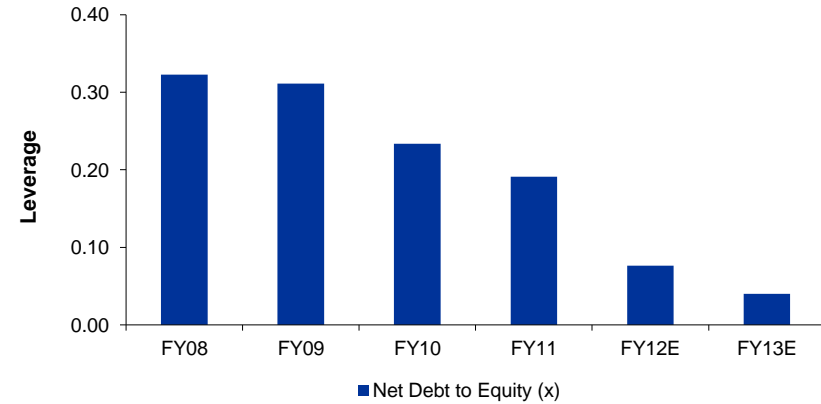
<b>CMP</b>	Rs. 82	<b>Absolute</b>	Add
<b>Target</b>	Rs. 84	<b>Relative</b>	Underperform

### Trend in quarterly EPS



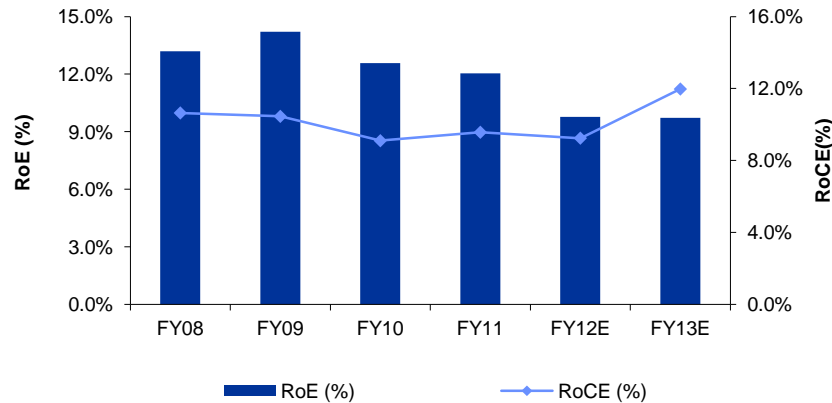
Source: Company, Spark Capital Research

### Strong cash accumulation to reduce leverage significantly



Source: Company, Spark Capital Research

### Slow redeployment to affect capital efficiencies



Source: Company, Spark Capital Research

### 1 yr forward P/BV



Source: Company, Spark Capital Research

# Neyveli Lignite Corporation

## Standalone Financial Summary

<b>CMP</b>	<b>Rs. 82</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 84</b>	<b>Relative</b>	<b>Underperform</b>

Abridged Financial Statements				
Rs. mn	FY10	FY11	FY12E	FY13E
<b>Profit &amp; Loss (Rs. mn)</b>				
Revenues	41,307	39,491	55,682	57,206
EBITDA	13,562	12,861	19,487	19,273
Other Income	6,064	9,704	5,870	6,791
Depreciation	3,243	4,129	6,224	6,224
EBIT	16,383	18,437	19,133	19,840
PBT	16,047	16,846	15,327	12,814
Net Profit	12,448	12,984	11,340	12,044
<b>Balance Sheet (Rs. mn)</b>				
Paid up Capital	16,777	16,777	16,777	16,777
Reserves & Surplus	86,470	95,595	103,076	111,261
Total debt	40,774	40,556	33,574	30,049
Deferred Tax	5,704	5,869	5,936	6,189
<b>Total Networth &amp; Liabilities</b>	<b>149,725</b>	<b>158,797</b>	<b>159,362</b>	<b>164,276</b>
Gross Fixed assets	119,324	151,352	166,052	166,052
Net fixed assets	52,388	80,287	88,763	82,539
CWIP	39,085	14,700	-	-
Investments	10,449	9,648	13,323	16,998
Inventory	5,132	4,917	8,352	8,581
Debtors	16,116	22,024	4,478	4,602
Loans & Advances	7,462	5,598	5,598	5,598
Cash	48,236	46,473	65,167	73,805
Current liabilities	30,134	25,841	27,309	28,836
Net current assets	46,812	53,172	56,286	63,749
Miscellaneous expenditure	991	991	991	991
<b>Total Assets</b>	<b>149,725</b>	<b>158,797</b>	<b>159,362</b>	<b>164,276</b>
<b>Cash Flows (Rs. mn)</b>				
Cash flows from Operations	(3,129)	(8,664)	25,275	9,627
Cash flows from Investing	(4,526)	2,863	2,195	3,116
Cash flows from Financing	3,748	4,037	(8,777)	(4,105)

Key metrics				
	FY10	FY11	FY12E	FY13E
<b>Growth ratios (%)</b>				
Sales	22.9%	-4.4%	41.0%	2.7%
EBITDA	59.7%	-5.2%	51.5%	-1.1%
PAT	-5.3%	4.3%	-12.7%	6.2%
<b>Margin ratios (%)</b>				
EBITDA	32.8%	32.6%	35.0%	33.7%
PAT	30.1%	32.9%	20.4%	21.1%
<b>Performance ratios</b>				
RoA (%)	8.5%	8.4%	7.1%	7.4%
RoE (%)	12.6%	12.0%	9.8%	9.7%
RoCE (%)	9.1%	9.6%	9.2%	12.0%
Total Assets Turnover (x)	0.3	0.2	0.3	0.3
Fixed Assets Turnover (x)	0.3	0.3	0.3	0.3
Working capital Turnover (x)	0.9	0.8	1.0	1.0
<b>Financial stability ratios</b>				
Net Debt to Equity (x)	0.3	0.3	0.2	0.2
Current ratio (x)	2.6	3.1	3.1	3.2
Working capital days	414	491	369	407
Inventory & Debtor days	188	249	84	84
Creditor days	266	239	179	184
Interest cover (x)	48.8	11.6	5.0	2.8
<b>Valuation metrics</b>				
Fully Diluted Shares (mn)	1,678	1,678	1,678	1,678
Fully Diluted M.Cap (Rs.mn)	137,571	137,571	137,571	137,571
Fully Diluted EPS (Rs.)	7.4	7.7	6.8	7.2
P/E (x)	11.1	10.6	12.1	11.4
EV (Rs.mn)	170,884	172,529	165,547	162,022
EV/ EBITDA (x)	12.7	13.4	8.9	9.0
BV/ share (Rs.)	62	67	71	76
Price to BV (x)	1.3	1.2	1.1	1.1

<b>CMP</b>	<b>Rs. 82</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 84</b>	<b>Relative</b>	<b>Underperform</b>

Absolute Rating Interpretation	
<b>BUY</b>	Stock expected to provide positive returns of > 15% over a 1-year horizon
<b>ADD</b>	Stock expected to provide positive returns of <=15% over a 1-year horizon
<b>REDUCE</b>	Stock expected to fall <=15% over a 1-year horizon
<b>SELL</b>	Stock expected to fall >15% over a 1-year horizon
Relative Rating Interpretation	
<b>OUTPERFORM</b>	Stock expected to outperform sector index /sector peers in our coverage
<b>UNDERPERFORM</b>	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History				
Date	CMP	Target price	Absolute Rating	Relative Rating
07-Oct-11	77	107	Add	OPF
01-Aug-11	98	107	Add	OPF
30-May-11	104	117	Add	OPF
08-Apr-11	112	122	Add	OPF
29-Mar-11	106	122	Add	OPF

## Analyst Certification

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