

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	NELG.BO
Bloomberg code	NLC IN
Market cap. (US\$ mn)	5,353
6M avg. daily turnover (US\$ mn)	3.3
Issued shares (mn)	1,678
Target price (Rs)	157

Performance (%) 1M 3M 12M

Absolute	(1)	(4)	8
Relative	4	(4)	(4)

Valuation ratios (Standalone)

Yr to 31 Mar	FY10P	FY11E
EPS (Rs)	7.4	8.1
+/- (%)	(17.5)	8.6
PER (x)	20.2	18.6
PBV (x)	2.5	2.4
Dividend/Yield (%)	1.3	1.5
EV/Sales (x)	6.5	4.6
EV/EBITDA (x)	25.5	9.5

Major shareholders (%)

Promoters	94
BFSI's	4
Public & Others	2

Financial highlights (Standalone)

(Rs mn)	4QFY10	4QFY09	YoY (%)	3QFY10	QoQ (%)	FY09	FY10	YoY (%)	FY11E	YoY (%)
Sales	11,035	7,657	44.1	12,517	(11.8)	28,251	37,854	34.0	53,078	40.2
EBIDTA	2,279	3,247	(29.8)	4,867	(53.2)	9,755	9,580	(1.8)	25,646	167.7
EBITDA Margin (%)	21	42	-	39	-	35	25	-	48	-
Depreciation	366	1,192	(69.3)	723	(49.3)	4,245	2,539	(40.2)	8,819	247.4
Interest	274	36	671.8	33	725.3	82	336	312.0	4,290	1177.6
Other Income	1,476	1,821	(18.9)	1,365	8.2	6,650	5,987	(10.0)	6,279	4.9
Extra Ordinary Items	-	(3,112)	-	-	-	(6,916)	-	-	-	-
PBT	3,115	729	327.1	5,476	(43.1)	5,162	12,693	145.9	18,816	48.2
Tax	(337)	(498)	(32.4)	1,765	(119.1)	2,249	3,574	58.9	5,268	47.4
Prior period Adj	-	830	-	(753)	-	5,298	3,356	-	-	-
Reported PAT	3,452	1,228	181.2	3,711	(7.0)	8,211	12,475	51.9	13,548	8.6
Adjustments	-	3,112	-	-	-	6,916	-	-	-	-
Adjusted PAT	3,452	4,339	(20.5)	3,711	(7.0)	15,127	12,475	(17.5)	13,548	8.6

Neyveli Lignite

Maintain Outperformer

Price: Rs 150

BSE Index: 17,022

03 June 2010

4QFY10 Result – Unimpressive operating performance

Neyveli Lignite Corporation (NLC) reported 44.1% (YoY) rise in sales backed by ~58% (YoY) rise in average tariff (based on the provisional booking of revenue through new 09-14 CERC norms). Lower generation (The total generation is down by 9% YoY due to the decline in generation at the TPS 1 A due to plant shut down) coupled with rise in employee cost by 78% YoY due to the upwards revision of pay, the operating profit declined by 30% in the quarter. However the net profit grew 181% due to 69% decline Depreciation provision due to the reaching of residual value of Mine 1 (with gross asset value of Rs 4.64 bn among the total mining gross asset value worth Rs 7.4 bn) and due to the absence of any extraordinary expenses relating to mine closure (Rs 3.11 bn in 4QFY09). Adjusted net profit stood lower by 20% YoY during the quarter. The interest cost has gone up from Rs 19 mn to Rs 274 mn due to operational of the of the 2.1 mn Barsingsar mine during the quarter. Negative tax provision amounting to Rs 33.7 mn is largely due to excess provision of previous years has been written-back during the quarter. Overall, the performance remains below our expectation.

Outlook and valuation

NLC target capacity addition at 500 MW (Lignite based) in FY11 (250 MW: TPS 2 expansion and 250 MW: Barsingsar). The company is expected to file the revised tariff petition for TPS 2 expansion in the 2QFY11 and fuel linkages for the two new projects has been in place with the already expanded mining capacity at TPS 2 (Mine 2 expansion from 10.5 MTPA to 15 MTPA) and at Barsingsar (2.1MTPA Barsingsar mine). The company continues to be cash heavy and have net debt position at Rs 7.46 bn by FY10 and has enough room for additional leverage in the balance sheet to finance the ongoing 1,800 MW capacity at the consolidated level. In our opinion, the stock provides exposure to stable business with low risk. We maintain Outperformer rating with a target price of Rs 157.

Income Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10	FY11E
Net sales	29,817	28,251	37,854	53,078
<i>Growth (%)</i>	<i>41.4</i>	<i>(5.3)</i>	<i>34.0</i>	<i>40.2</i>
Operating expenses	(17,569)	(18,497)	(28,274)	(27,432)
Operating profit	12,248	9,755	9,580	25,646
EBITDA	12,248	9,755	9,580	25,646
<i>Growth (%)</i>	<i>60.9</i>	<i>(20.4)</i>	<i>(1.8)</i>	<i>167.7</i>
Depreciation	(4,483)	(4,245)	(2,539)	(8,819)
Other income	6,564	6,650	5,987	6,279
EBIT	14,328	12,159	13,028	23,106
Interest paid	(88)	(82)	(336)	(4,290)
Pre-tax profit (before non-recurring)	14,240	12,078	12,693	18,816
Non-recurring items	0	(6,916)	0	0
Pre-tax profit (after non-recurring)	14,240	5,162	12,693	18,816
Tax (current + deferred)	(3,197)	(2,249)	(3,574)	(5,268)
Net profit (before Minority Interest, Pref. Dividend, etc.)	11,043	2,913	9,119	13,548
Prior period adjustments	0	5,298	3,356	0
Reported PAT	11,043	8,211	12,475	13,548
Adjusted net profit	11,043	15,127	12,475	13,548
<i>Growth (%)</i>	<i>94.8</i>	<i>37.0</i>	<i>(17.5)</i>	<i>8.6</i>

Balance Sheet (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10	FY11E
Cash & Marketable sec.	47,496	54,522	47,814	77,590
Other current assets	11,342	21,049	28,607	20,464
Investments	8,262	8,114	10,449	17,004
Net fixed assets	75,294	86,251	91,473	77,826
Total assets	142,394	169,935	178,344	192,884
Current liabilities	18,339	28,516	30,032	36,751
Total debt	27,907	40,577	40,774	43,573
Other non-current liabilities	6,059	6,714	5,673	5,673
Total liabilities	52,305	75,807	76,479	85,997
Share capital	16,777	16,777	16,777	16,777
Reserves & surplus	73,627	77,915	86,078	91,101
Less: Misc. expenditure	(315)	(565)	(991)	(991)
Shareholders' funds	90,089	94,128	101,865	106,887
Total equity & liab.	142,394	169,935	178,344	192,884
Capital employed	124,055	141,420	148,312	156,133

Cash Flow Statement (Standalone)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10P	FY11E
Pre-tax profit	14,240	5,162	12,693	18,816
Depreciation	4,545	4,245	2,539	8,819
Change in working capital	1,916	468	(6,073)	14,862
Total tax paid	(3,991)	(1,594)	(4,584)	(5,268)
Cash flow from oper. (a)	16,710	8,282	4,574	37,229
Capital expenditure	(21,539)	(15,492)	(11,923)	4,828
Change in investments	1,032	149	(2,336)	(6,554)
Others	(143)	41	3,735	(0)
Cash flow from inv. (b)	(20,650)	(15,302)	(10,523)	(1,727)
Free cash flow (a+b)	(3,939)	(7,021)	(5,949)	35,502
Debt raised/(repaid)	12,850	12,670	197	2,799
Dividend (incl. tax)	(2,786)	(2,784)	(2,785)	(3,121)
Others	(1,159)	(3,125)	(540)	(358)
Cash flow from fin. (c)	8,905	6,761	(3,129)	(679)
Net chg in cash (a+b+c)	4,965	(260)	(9,078)	34,823

Key Ratios (Standalone)

Yr end 31 Mar (%)	FY08	FY09	FY10P	FY11E
Adjusted EPS (Rs)	6.6	9.0	7.4	8.1
Growth	94.8	37.0	(17.5)	8.6
Book NAV/share (Rs)	53.7	56.1	60.7	63.7
Dividend/share (Rs)	2.0	2.0	2.0	2.2
Dividend payout ratio	25.2	18.4	22.3	23.0
Tax (%)	22.5	43.6	28.2	28.0
EBITDA margin	41.1	34.5	25.3	48.3
EBIT margin	48.1	43.0	34.4	43.5
RoCE	12.5	9.2	9.0	15.2
Net debt/Equity	(21.7)	(14.8)	(6.9)	(31.8)

Valuations (Standalone)

Yr end 31 Mar (x)	FY08	FY09	FY10P	FY11E
PER	22.8	16.6	20.2	18.6
PCE	16.2	13.0	16.7	11.2
Price/Book	2.8	2.7	2.5	2.4
Yield (%)	1.3	1.3	1.3	1.5
EV/Net sales	8.2	8.6	6.5	4.6
EV/EBITDA	20.0	25.1	25.5	9.5

Du Pont Analysis – ROE (Standalone)

Yr end 31 Mar (x)	FY08	FY09	FY10P	FY11E
Net margin (%)	37.0	53.5	33.0	25.5
Asset turnover	0.2	0.2	0.2	0.3
Leverage factor	1.5	1.7	1.8	1.8
Return on equity (%)	12.8	16.4	12.7	13.0

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