NEYVELI LIGNITE CORPORATION LTD
RESEARCH

EQUITY RESEARCH — **March 17, 2008**

RESULTS REVIEW

Share Data

Market Cap	Rs. 198.7 bn
Price	Rs. 118.45
BSE Sensex	14,809.49
Reuters	NELG.BO
Bloomberg	NLC IN
Avg. Volume (52 Week)	1.3 mn
52-Week High/Low	Rs. 273.90 / 49
Shares Outstanding	1,677.7 mn

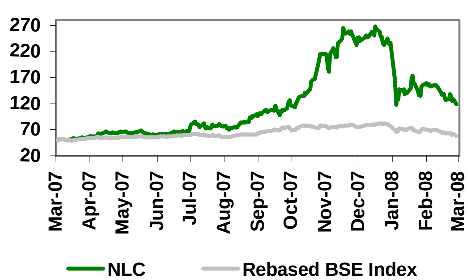
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	4.8	5.2
+/- (%)	47.6%	6.8%
PER (x)	24.5x	22.9x
EV/ Sales (x)	6.2x	5.8x
EV/ EBITDA (x)	15.8x	14.9x

Shareholding Pattern (%)

Promoters	94
FIIs	1
Institutions	4
Public & Others	2

Relative Performance



Neyveli Lignite Corporation — Hold

Expanding capacity to meet the increasing demand

As on 14th Mar'08, Neyveli Lignite Corporation (NLC) has inked an MOU with the Northern Coalfields to set up a 1,000 MW pit-head power station, worth Rs. 52 bn at Gorbi mines in the Singrauli Coalfields. Moving ahead on the capacity expansion plans, NLC is also holding talks with Mahanadi Coalfields (MCL) for setting up a 2,000 MW pit-head power unit at Vasundhara mines in the IB Valley coalfields. With the increased energy deficit in Neyveli's customer states, demand risks for the Company are minimal. Moreover, Neyveli draws sustainable competitive advantage from its competitive capital cost, low-variable cost of generation, and easily available lignite. However, lignite being a low-grade coal suffers from the disadvantage of lower PLF, thus reduced generation. To overcome these disadvantages and to improve PLF, the Company is foraying into coal-based power plants with the first one in Tuticorin of 1,000 MW expected to be commissioned by FY10-12.

Valuation

Impressive performance during the quarter makes us optimistic about the Company's expected earnings. However, better execution capability would be the key to success. Based on our DCF valuation, we arrive at a target price of Rs. 130, does not offers major upside from the current levels. We believe that Neyveli's long-term growth potential remains intact. But at the moment, the stock appears to be fairly priced. We reiterate our Hold rating on the stock; however, any decline in the share price from the current level would be a good buying opportunity.

Key Figures

Quarterly data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	5,102	7,278	6,746	32.2%	(7.3%)	17,579	21,799	24.0%
Adj. EBITDA	1,894	2,610	2,554	34.9%	(2.1%)	7,122	9,171	28.8%
Adj. Net Profit	1,526	2,332	2,047	34.1%	(12.2%)	5,404	7,300	35.1%
Margins(%)								
EBITDA	37.1%	35.9%	37.9%			40.5%	42.1%	
NPM	29.9%	32.0%	30.3%			30.7%	33.5%	
Per Share Data (Rs.)								
Adj. EPS	0.9	1.4	1.2	34.2%	(12.9%)	3.2	4.4	35.7%

Result Highlights

Achievement of MOU targets resulted in net sales growth

During the quarter ended Dec. 07, net sales grew by 32.2% yoy to Rs. 6.7 bn. The growth in the net sales was driven by the accomplishment of overall MoU targets by the Company for overburden removal, lignite mining, and power generation. Sales of the energy segment, which constitutes 97.5% of the total sales, increased 23.6% yoy.

Though Neyveli achieved the overall MoU targets for all of its business units, it couldn't meet the internal targets of Mine-I, Mine-II, and TPS-I. The management has taken note of this under performance and we expect them to meet all set targets for the next quarter, resulting in a better performance.

Higher efficiency in lignite mining pulled the margins up

On the back of the reduced other expenditure, EBITDA grew by 34.9% yoy to Rs. 2.6 bn. EBITDA margin advanced by 75 bps to 37.9% due to 532 bps decline in the stores and spares consumption-to-sales ratio, and 506 bps decrease in the other expenses-to-sales ratio. However, EBITDA growth was limited due to the increased staff cost, which includes provisioning towards pay revision.

Net profit margin improved 479 bps yoy to 31.7%

Neyveli saved almost 90% on the interest outgo due to the repayment of high interest debt, which eventually resulted in the 34.1% yoy increase in net profit to Rs. 2 bn. However, net profit growth was limited by a higher tax provisioning.

Prospects

MOU with Northern Coalfields Limited

NLC along with Northern Coalfields (NCL) plans to invest Rs. 52 bn for setting up a 1,000 mw pit-head power station at Gorbi mines in the Singrauli Coalfields. The two PSUs have already signed a Memorandum of Understanding. The two companies would be setting up a 50:50 special purpose vehicle for the pit-head power unit and mine development. Of the total proposed investment, around Rs. 45 bn would be invested in setting up the pit-head power unit, while Rs. 7 bn would be invested for the development of mines.

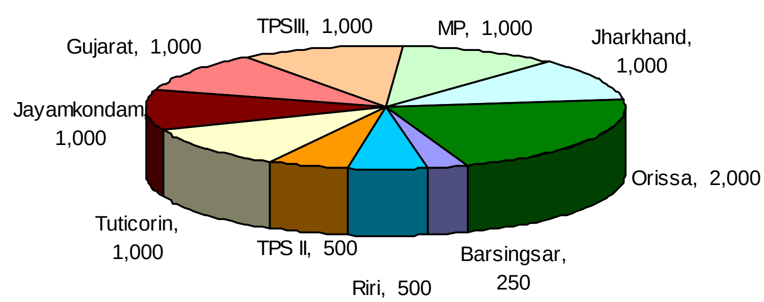
Capacity augmentation plans

Huge investments lined up

Neyveli is planning to almost double its lignite mining capacity to 61.9 MTPA and quadruple its power generation capacity to 11,990 MW. The capacity addition will be either on standalone basis or in association with other State Agencies.

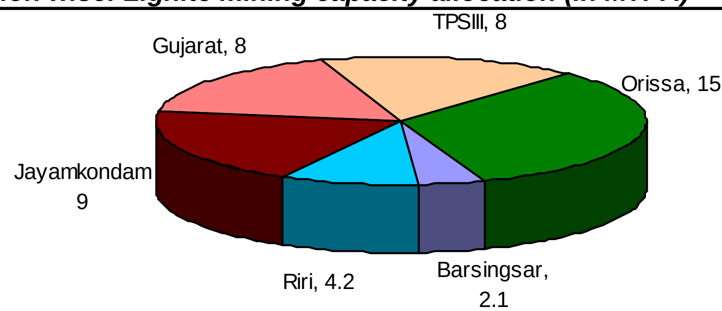
Amongst the two pie charts below, the first highlights Neyveli's power generation expansion plans in different states. The other chart shows the ramping up plans of the lignite mining capacities at six different places, with Orissa witnessing the maximum capacity allocation.

Location wise: Power capacity allocation (in MW)



Source: Company data, Indiabulls research

Location wise: Lignite mining capacity allocation (in MTPA)



Source: Company data, Indiabulls research

Outlook

Reaping the dual benefit of coal and lignite

Neyveli continues to move ahead in the power business, which is evident from the 9M'08 revenue growth of 24% yoy, the highest in the last five years. Further, the fact that lignite is a cheaper fuel and the Company has its own mining activity provides it an added advantage over its competitors in terms of lower cost and easy availability of fuel. However, lignite being a low-grade coal exposes Neyveli towards the lower PLFs for its power plants, thus reduced generation. To overcome the disadvantages of lignite, Neyveli is foraying into coal-based power plants with the one in Tuticorin of 1,000 MW capacity expected to be commissioned by FY10 - 12.

Neyveli's blend of the lignite and coal mining as well as the power generation activity from both the resources would help it to improve its earnings. However, any delay in the projects execution and the lignite transfer pricing can hurt the business.

Valuation

At the current levels, the stock trades at a P/E of 24.5x and 22.9x for revised earnings for FY08E and FY09E, respectively. Impressive performance during the quarter makes us optimistic about the Company's expected earnings. In lieu of the decreased interest expense during 9M'08, we have revised our net profit margin upward by 30 bps for FY08E.

However, better execution capability would be the key to quality earnings going forward. Based on our DCF valuation, we arrive at a target price of Rs. 130, does not offers major upside from current levels. We believe that Neyveli's long-term growth potential remains intact. But at the moment the stock appears to be fairly priced. We reiterate our Hold rating on the stock; however, any decline in the share price from the current level would provide a good buying opportunity.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR(%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	30,019	22,014	21,081	27,561	29,434	18.2%
EBITDA	17,015	7,662	7,634	10,804	11,465	22.5%
Net Profit	12,181	6,118	5,496	8,111	8,660	25.5%
Margins(%)						
EBITDA	56.7%	34.8%	36.2%	39.2%	39.0%	
NPM	40.6%	27.8%	26.1%	29.4%	29.4%	
Per Share Data (Rs.)						
Normalised EPS	7.3	3.7	3.3	4.8	5.2	25.5%
PER (x)	9.2x	20.2x	15.4x	24.5x	22.9x	

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