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Initiating Coverage

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Gujarat Mineral Dev Corp Limited

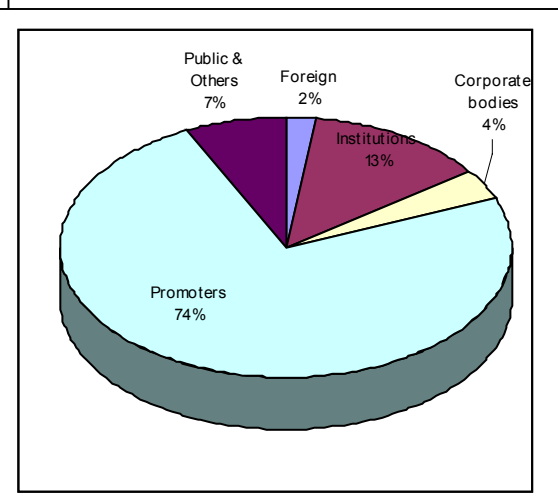
Buy
(Medium Risk)

CMP: Rs.193.75



Key Data

Face Value:	2.00
52 week High:	634
52Week Low:	179.50
NSE Code:	GMDCLTD
Average Vol.(daily)	129390



Company Background

Gujarat Mineral Development Corporation (GMDC) was established by the Government of Gujarat, in the year 1963, for developing important and major mineral resources of the State. The main activity of GMDC is mining Lignite. It has a lignite-based power plant of 250MW. Lignite contributes almost 80% of the turnover while power contributes about 16%. GMDC deals in bauxite and fluorspar also. GMDC has mines at Panadharo, Akrimota, Umarsar, Mata no madh, Raj pardi and Kadipani.

Investment Rationale

The company has mines, which are located in the belt, which is deficient in energy sources. Hence GMDC has significant pricing power. It is the largest lignite merchant in India. It is the second largest lignite producer in the country.

The price realization is Rs 783 per tonne during the year FY08 compared to Rs 646 per tonne for FY07. The rise in prices is 21%. The prices of other sources of energy have gone up very sharply. Thus the conditions are ripe for the usage as well as prices of lignite to go up.

GMDC has repaid loans to the tune of Rs 450 crores in last three years. This translates in to a little over 28 per share, which is fourteen times its face value. The book value of the share is Rs 66.77. GMDC has announced 1:1 bonus.

Expansion plans

- LIGNITE PROJECT, BHAVNAGAR [DIST. BHAVNAGAR]

The Lignite production from this mine, which has a capacity of 3 million tones per annum, is expected to start from September-October, 2008.

- COAL MINING AND POWER PROJECTS

GMDC has been allotted coal blocks in the Chattishgarh, Jharkhand and Orissa region, which has enough coal to set up 2750MW Power plants.

- 80 MW CAPTIVE POWER PLANT - LIGNITE FROM TADKESHWAR MINES

A power plant of 80 MW is proposed to be set up to utilize the lignite of Tadkeshwar mines. The power project is proposed to be set up in a JV. The JV partner is M/s. Gokul Refoils & Solvents Ltd.

- BAUXITE MINING

GMDC proposes to step up bauxite mining and has executed MOU with M/s. Ashapura Minechem Ltd. for setting up of 1.0 million TPA of Alumina plant. This is to exploit the mines at Kutch. An MOU has also been signed with M/s. Aluchem Inc., USA for setting up of 1.0 million TPA capacity Alumina based chemicals and speciality products based on Bauxite deposits of Districts other than Kutch.

Besides the above projects, GMDC has other projects on the anvil for mining and utilization of other minerals as well.

Peer Set Comparison

There is no really comparable company is available in the listed space. The table given below should be considered as indicative only.

FY08 Rs crores	GMDC	Neyveli Lignite
Sales	1042	3743
Net Profit	263	1099
Equity Capital	31.80	1678.71
Face Value (Rs)	2.00	10.00
EPS(Rs)	16.60	2.93
CMP(Rs)	193.75	112.95
Dividend per share(Rs)	2.00	2.00
PE (X)	11.67	38.41

The main business of Neyveli Lignite is the power generation. Next important source of revenue of Neyveli Lignite is financial services. Sale of Lignite constitutes less than 10% of sales for Neyveli Lignite. The future plans focus on power generation based on lignite being the fuel. GMDC derives 80% of its revenue from sales of Lignite. It is into power generation also which is to meet its captive requirements and balance is sold to state electricity board. The longer-term plan of GMDC is to focus on mining and promote usage of minerals.

Risks and Concerns

- The mining has considerable environmental costs .The environmental clearances are cumbersome and time consuming.
- The gestation period of the mines is quite long and time consuming. Thus returns could be delayed considerably.

- GMDC is now focusing on joint ventures to utilize the minerals. In case of delay in the implementation of the projects by the JV the investment could remain unproductive.
- Lignite is essentially a low-grade fuel and is largely used by industry. The industry has to make considerable investments to switch over to new fuel.
- GMDC is a state level PSU and the government in power may influence the decision-making.

Valuation and Recommendation

GMDC is available at a PE multiple of 11.67 and the expected growth in profits is expected to be of the order of 20%. GMDC can increase the profits thru expansions and the improvement in prices of lignite as a fuel. The price of lignite over last one year for GMDC has been very small compared to other fuels. Over the period the debt equity ratio of GMDC has improved and has considerable elbowroom to raise debt. GMDC has announced 1:1 bonus.

The investors can accumulate the share in the price range Rs 185 to 195 with a medium term target of Rs 235.

Financial Projections

Earnings Table (Rs Cr)				
Particulars	FY07	FY08	FY09E	FY10E
Net Sales	589	980	1176	1411
Change %		66.42	20.00	20.00
Total Income	679	1042	1246	1491
Total Expenditure	308	467	578	716
PBDIT	371	574	668	776
Depreciation	129	96	96	100
PBIT	241	479	572	676
Interest	74	70	16	15
PBT	168	408	556	660
Tax	0	105	135	175
Deferred tax	73	39	20	15
Reported PAT	94	264	401	470
Adjusted PAT	94	263	401	470
Change %		178.94	52.33	17.28
Cash Profit	297	360	497	571

Key Ratios				
Particulars	FY07	FY08	FY09E	FY10E
EBDIT (%)	47.63	52.31	50.85	49.29
PBIT (%)	41.00	48.83	48.64	47.87
PAT (%)	16.04	26.93	34.10	33.33
RoCE (%)	18.74	29.54	32.04	34.10
RoE (%)	11.26	24.86	28.96	26.13
Debt/Equity	1.14	0.63	0.33	0.12

Balance Sheet (Rs Cr)				
Particulars	FY07	FY08	FY09E	FY10E
Share Capital	31.80	31.80	31.80	63.60
Reserves & Surpluses	807	1030	1353	1737
Net Worth	839	1062	1385	1800
Loan Funds	960	664	462	222
Deferred Tax	180	217	237	252
Total Liabilities	1979	1943	2085	2275
Net Fixed Assets	1404	1356	1380	1425
Investments	61	61	125	200
Net Current Assets	477	523	580	650
Misc Assets	36	3	0	0
Total Assets	1979	1943	2085	2275

Valuations				
Particulars	FY07	FY08	FY09E	FY10E
Adjusted EPS (Rs)	5.94	16.60	25.23	14.79
Cash EPS (Rs)	18.66	22.63	31.28	17.95
Book Value Per Share (Rs)	52.75	66.77	87.11	56.62
Divi/share (Rs)	2.00	2.00	2.50	1.50
P/E	32.61	11.67	7.68	6.55
P/BV	3.67	2.90	2.22	1.71
M-Cap/Sales	4.54	2.96	2.47	2.07

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