

# Neyveli Lignite (NEYLIG)

Rs 144

## WHAT'S CHANGED...

PRICE TARGET ..... Changed from Rs 141 to Rs 151  
 EPS (FY10E) ..... Changed from Rs 7.1 to Rs 7.4  
 EPS (FY11E) ..... Changed from Rs 8.0 to Rs 8.6  
 RATING..... Changed from Sell to Add

## Steady growth lined ahead...

In Q4FY10, Neyveli Lignite (NLC) reported ~44% YoY growth in topline from Rs 766 crore to Rs 1,103 crore compared to our expectation of ~21.5% growth in topline. On the volume front, NLC has delivered de growth of ~8.9 % YoY from 5,044 MU to 4,593 MU in line with our expectation. In FY10, NLC has witnessed the highest lignite production of 22.3 MT compared to 21.5 MT in the same period last year and simultaneously achieved the highest generation since the beginning of 17,658 MU compared to 17,457 MU for the same period last year. NLC has benchmarked a growth of 8% over the next year targeting an overall generation of 18,758 MU in FY11E.

### ■ Despite delays Barsinger progressing well

The first unit of the 2x125 MW Barsinger Lignite project was synchronised in October 2009. The company is still to achieve commissioning, which is expected by June 2010. In the meantime, the company has been able to achieve full production capacity at the Barsinger mine in January 2010. The second unit is expected to achieve synchronisation in August 2010. The Barsinger mine has already commenced operations and achieved full capacity with an initial production of 1.02 lakh tonne lignite in FY09.

### ■ Expansion plans materialising well

In addition to the plans under construction of 1,800 MW (thermal and wind plans), Neyveli Lignite has submitted the feasibility report for the Bithnok Lignite mine cum project (2.5 MTPA and 250 MW power plant) and new thermal power project at Neyveli (2x500 MW in lieu of TPS – I) to the Ministry of Coal and sanctions for the same are still awaited.

## Valuation

At the CMP of Rs 144, the stock is trading at FY10 P/BV of 2.3x and FY11E P/BV of 2.2x. The stock looks fairly valued. The plans in lieu of refurbishing the existing capacity at TPS-I are progressing well. Thus, we have upgraded our rating to **ADD** from **SELL** with a price target of Rs 151.

### Exhibit 1: Performance Highlights

(Rs Crore)	Q4FY10	Q4 FY10E	Q4FY10	Q3FY10	QoQ (Chg %)	YoY (Chg %)
<b>Net Sales</b>	1,103.5	930.1	765.7	1,251.7	-11.8	44.1
<b>EBITDA</b>	224.6	314.6	334.6	486.7	-53.8	-32.9
<b>EBITDA Margin (%)</b>	20.4	33.8	43.7	38.9	-1853 bps	-2334 bps
<b>Depreciation</b>	79.6	65.0	119.2	72.3	10.2	-33.2
<b>Interest</b>	27.4	15.0	3.7	3.3	NA	NA
<b>Reported PAT</b>	345.1	291.9	122.6	371.1	-7.0	181.5
<b>EPS (Rs)</b>	2.1	1.7	0.7	2.2	-7.0	181.5

Source: Company, ICICIdirect.com Research

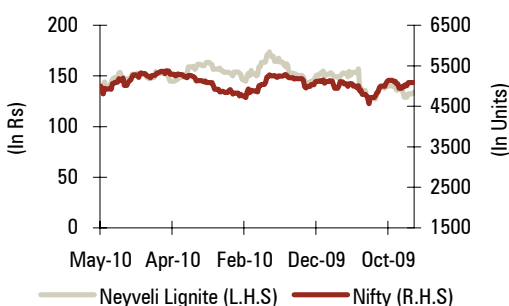
Rating matrix	
Rating	: Add
Target	: Rs 151
Target Period	: 12 months
Potential Upside	: 5%

Key Financials				
(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	2825.1	4121.0	4687.5	5194.6
EBITDA	983.2	1290.4	1849.6	2144.7
Net Profit	846.1	1247.5	1445.2	1458.0

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	28.6	19.4	16.7	16.6
Target PE (x)	29.9	20.3	17.5	17.4
EV/EBITDA (x)	23.8	18.1	12.6	10.9
P/BV (x)	2.6	2.3	2.2	2.0
RoNW (%)	9.1	12.6	13.4	12.5
RoCE (%)	4.6	7.5	8.7	8.3

Stock data	
Market Capitalisation	Rs 24159 Crore
Debt (FY09)	Rs 4083 Crore
Cash (FY09)	Rs 4854 Crore
EV	Rs 23387 Crore
52 week H/L	177/109
Equity capital	Rs 1678 Crore
Face value	Rs 10
MF Holding (%)	0.1
FII Holding (%)	0.2

### Price movement (Stock vs. Nifty)



### Analyst's name

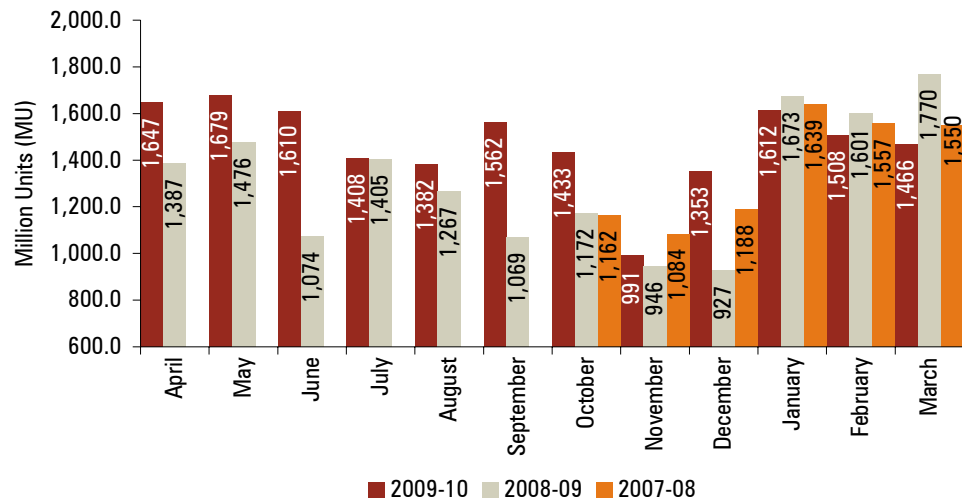
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**Result Analysis**

NLC reported a revenue growth of ~44% YoY from Rs 766 crore to Rs 1103 crore even after witnessing volume de-growth of ~9% in the last quarter. We believe the company is likely to witness a consolidation phase when it comes to generation and post the commissioning of new facilities from Q2FY11E onwards again start scaling new heights. The better utilisation of the open cast mines in the rainy season has resulted in the company achieving the highest mining production and also highest generation since inception.

Post the commissioning of the thermal project under construction the company is expected to achieve a thermal capacity of 4,240 MW by FY13E. The company has ambitious plans and is targeting a base of installed capacity of 13,790 MW by the end of FY17 along with a mining capacity of 79.85 MTPA to support the generation.

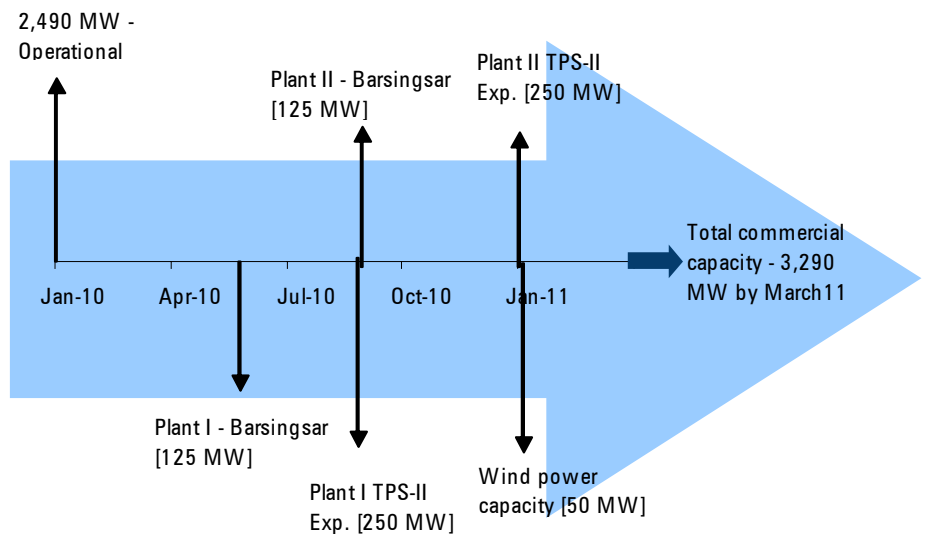
**Exhibit 2: Generation sustaining momentum**



Generation has witnessed a lull this quarter owing to the base effect. However, the annual trends in generation are encouraging. The company has achieved the highest generation since inception and with the likely expansion of projects in the next quarter the annual momentum is expected to continue in the coming years as well

Source: Company, CEA, ICICIdirect.com Research

**Exhibit 3: New schedule for synchronising the capacity**



Total ~24% i.e. (600 MW) of the 2,490 MW installed capacity as on March 2010 has already served more than 40 years, which is due for phasing out by FY13. Early signs of refurbishing the capacity of 1,000 MW in lieu of the 600 MW of TPS-I are taking shape

Source: Company, ICICIdirect.com Research

#### Outlook & earnings revision

Progress on the implementation of projects is visible and with decent balance sheet strength, we believe the company will be in a sweet spot to capitalise on the expansion plans. The stock has corrected in recent months and provided an opportunity for investors to accumulate the stock. We believe the expansion plans for the company along with the disinvestment buzz surrounding the scrip may lead to a further re-rating for the scrip.

We have fine-tuned our projections marginally owing to delays in the plant commissioning schedule and a better-than-expected performance from their existing portfolio.

#### Valuations

At the CMP of Rs 144, the stock is trading at FY10 P/BV of 2.3x and FY11E P/BV of 2.2x. The stock looks fairly valued. The plans in lieu of refurbishing the existing capacity at TPS-I are progressing well. Thus, we have upgraded our rating to **ADD** from SELL with a price target of Rs 151.

We have arrived at the fair value of Rs 151 based on our DCF-based model taking the WACC of 9.61% and assuming a terminal growth of 5%. We believe Neyveli Lignite will be a potential disinvestment candidate in FY12E and any material development on such event may impact the movement of the stock on the bourses.

**Exhibit 10: ICICIdirect.com coverage universe (Power & Infrastructure)**

					Sales	EPS	PE	EV/E	PB	RoNW	RoCE	Earnings
					(Rs cr)	(Rs)	(x)	(x)	(x)	(%)	(%)	yield
<b>NTPC</b>												
<b>Idirect Code</b>	<b>NTPC</b>	<b>CMP</b>	<b>197</b>	<b>FY08</b>	40,017.7	9.0	21.9	16.1	3.0	14.6	15.8	4.6
		<b>Target</b>	<b>241</b>	<b>FY09</b>	45,272.8	9.9	19.8	17.3	2.7	14.9	13.3	5.0
<b>Mcap(Rs cr)</b>	<b>162,724.2</b>	<b>% Upside</b>	<b>22.1</b>	<b>FY10E</b>	49,596.7	10.5	18.8	13.9	2.5	14.5	13.3	5.3
				<b>FY11E</b>	53,976.0	10.8	18.2	12.3	2.3	13.8	12.2	5.5
				<b>FY12E</b>	62,773.4	12.3	16.1	9.7	2.1	14.3	12.2	6.2
<b>Lanco Infratech</b>												
<b>Idirect Code</b>	<b>LANINF</b>	<b>CMP</b>	<b>61</b>	<b>FY08</b>	3,241.3	1.5	41.5	31.0	8.0	21.2	9.3	2.4
		<b>Target</b>	<b>70</b>	<b>FY09</b>	6,072.0	1.2	52.4	28.4	7.0	14.3	5.8	1.9
<b>Mcap(Rs cr)</b>	<b>14,685.2</b>	<b>% Upside</b>	<b>14.7</b>	<b>FY10E</b>	7,580.3	2.1	28.9	17.9	4.4	18.8	6.5	3.5
				<b>FY11E</b>	14,383.7	5.4	11.3	5.6	3.3	33.5	13.8	8.9
				<b>FY12E</b>	16,178.2	5.7	10.7	4.8	2.6	26.9	12.2	9.3
<b>GMR Infrastructure</b>												
<b>Idirect Code</b>	<b>GMRINF</b>	<b>CMP</b>	<b>59</b>	<b>FY08</b>	2,294.7	0.6	101.7	51.6	3.5	3.4	3.0	1.0
		<b>Target</b>	<b>74</b>	<b>FY09</b>	4,019.2	0.8	76.5	29.1	3.3	4.3	3.2	1.3
<b>Mcap(Rs cr)</b>	<b>21,523.5</b>	<b>% Upside</b>	<b>26.4</b>	<b>FY10E</b>	5,374.1	0.0	NA	19.9	3.3	-0.2	3.7	-0.1
				<b>FY11E</b>	6,509.7	0.8	72.9	14.9	3.2	4.4	4.4	1.4
				<b>FY12E</b>	7,710.4	0.8	75.5	11.5	3.1	4.0	3.9	1.3
<b>Neyveli Lignite</b>												
<b>Idirect Code</b>	<b>NEYLIG</b>	<b>CMP</b>	<b>144</b>	<b>FY08</b>	2,981.7	6.6	21.8	19.0	2.6	12.8	7.3	4.6
		<b>Target</b>	<b>151</b>	<b>FY09</b>	2,825.1	5.0	28.6	23.8	2.6	9.1	4.6	3.5
<b>Mcap(Rs cr)</b>	<b>21,810.2</b>	<b>% Upside</b>	<b>4.6</b>	<b>FY10E</b>	4,121.0	7.4	19.4	18.1	2.3	12.6	7.5	5.2
				<b>FY11E</b>	4,687.5	8.6	16.7	12.7	2.2	13.4	8.7	6.0
				<b>FY12E</b>	5,194.6	8.7	16.6	10.9	2.0	12.5	8.3	6.0
<b>PTC</b>												
<b>Idirect Code</b>	<b>POWTRA</b>	<b>CMP</b>	<b>100</b>	<b>FY08</b>	3,906.1	2.2	46.2	104.5	1.5	5.6	6.8	2.2
		<b>Target</b>	<b>136</b>	<b>FY09</b>	6,528.9	3.9	25.3	80.9	1.5	5.9	7.5	4.0
<b>Mcap(Rs cr)</b>	<b>2,935.0</b>	<b>% Upside</b>	<b>35.9</b>	<b>FY10E</b>	7,772.3	3.2	31.2	30.8	1.4	5.1	7.2	3.2
				<b>FY11E</b>	9,976.3	4.4	22.7	19.3	1.3	6.0	8.3	4.4
				<b>FY12E</b>	10,701.4	7.1	14.1	9.2	1.3	9.3	12.9	7.1
<b>GVK Power &amp; Infra</b>												
<b>Idirect Code</b>	<b>GVKPOW</b>	<b>CMP</b>	<b>43</b>	<b>FY08</b>	470.0	0.7	63.1	63.2	63.2	7.5	3.8	1.6
		<b>Target</b>	<b>54</b>	<b>FY09</b>	513.8	0.5	78.8	66.5	2.6	3.4	2.2	1.3
<b>Mcap(Rs cr)</b>	<b>6,723.5</b>	<b>% Upside</b>	<b>27.7</b>	<b>FY10E</b>	1,786.6	0.3	124.3	25.2	2.1	2.7	4.0	0.8
				<b>FY11E</b>	2,073.6	1.4	30.9	15.4	2.0	7.7	6.1	3.2
				<b>FY12E</b>	2,254.7	1.5	28.2	12.4	1.9	7.9	6.4	3.5
<b>NHPC</b>												
<b>Idirect Code</b>	<b>NHPC</b>	<b>CMP</b>	<b>29</b>	<b>FY08</b>	2,475.7	0.9	32.7	23.2	2.1	5.9	5.6	3.1
		<b>Target</b>	<b>39</b>	<b>FY09</b>	2,923.1	1.0	29.1	22.9	2.0	6.4	4.9	3.4
<b>Mcap(Rs cr)</b>	<b>35,610.6</b>	<b>% Upside</b>	<b>35.0</b>	<b>FY10E</b>	4,332.0	1.7	17.0	13.2	1.5	10.2	6.9	5.9
				<b>FY11E</b>	3,653.6	1.0	28.8	16.1	1.5	5.3	4.3	3.5
				<b>FY12E</b>	4,898.1	1.2	23.4	11.5	1.4	6.3	6.0	4.3
<b>JP Power</b>												
<b>Idirect Code</b>	<b>JAIHYD</b>	<b>CMP</b>	<b>66</b>	<b>FY08</b>	300.8	1.5	44.4	63.9	3.1	20.9	12.2	2.3
		<b>Target</b>	<b>72</b>	<b>FY09</b>	296.7	1.2	56.1	64.4	3.0	13.3	11.8	1.8
<b>Mcap(Rs cr)</b>	<b>13,726.7</b>	<b>% Upside</b>	<b>10.6</b>	<b>FY10E</b>	704.8	2.0	32.6	27.2	4.1	6.7	10.7	3.1
				<b>FY11E</b>	724.0	3.9	16.6	26.5	3.8	7.5	5.5	6.0
				<b>FY12E</b>	2,405.2	4.7	14.0	8.4	3.2	15.1	12.0	7.2

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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Add: Up to 10%;

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