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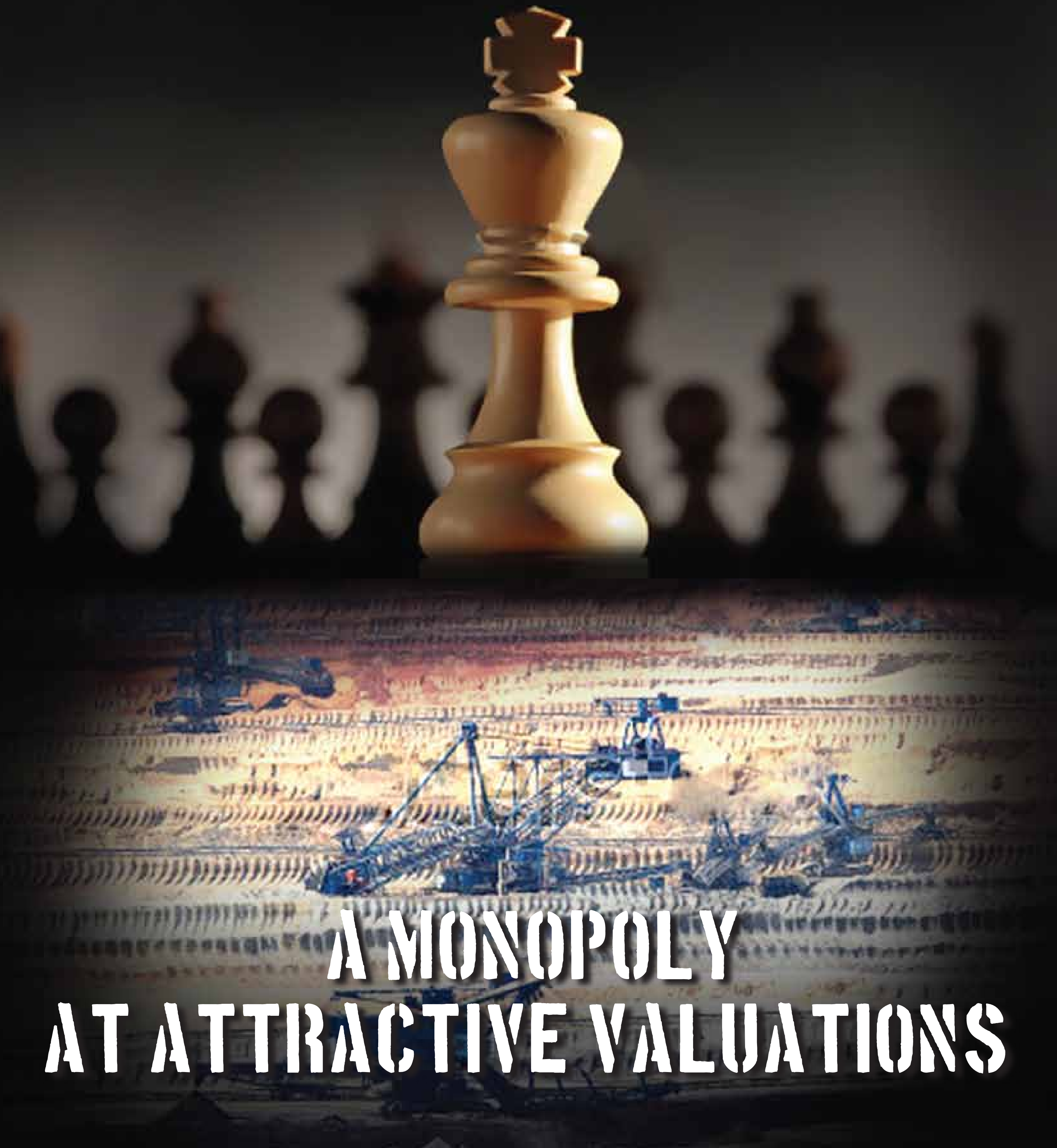
GMDC



A MONOPOLY AT ATTRACTIVE VALUATIONS

Gujarat Mineral Development Corporation

13 December 2012

Initiating Coverage

Reuters: GMDC.BO; Bloomberg: GMDC IN

Monopoly At Attractive Valuation

We have assigned a Buy rating to Gujarat Mineral Development Corporation (GMDC) due to monopolistic nature of its business, steady volume and earnings growth and attractive valuation. We expect GMDC to post 18%/22%/21% CAGRs in revenue/EBITDA/PAT, respectively, over FY12-FY15E, driven by 11%/9% rise in lignite volume/realisation, respectively, in the same period. GMDC trades at P/E of 9.0x/8.4x/7.3x FY13E/FY14E/FY15E earnings, respectively, while EV/EVITDA multiples are at 4.8x/4.3x/3.5x, respectively, for the same period. We have set a target price of Rs265 (6.0x FY14E EV/EBITDA) on GMDC, up 34% from the CMP.

Steady volume growth: We have assumed a 10.7% CAGR in lignite volume over FY12-FY15E based on commissioning of Umarsar mine and expansion of Bhavnagar and Mata's Madh mines. We are also positive on the next phase of volume growth, beyond FY15, which involves Panandhro North, Lakhpat, Gala and Damlai Padal mines, all located in Gujarat.

Price hikes likely to remain steady, customers' acceptability not a concern: We are assuming 8.7% CAGR in lignite realisation on a blended basis over FY12-FY15E, but a significant portion of this will be driven by ad-hoc increase in Panandhro mine realisation, which rose 27% in 2QFY13. Barring Panandhro mine realisation, the increase is likely to be at 7.6% CAGR over FY12-FY15E. Our interaction with customers revealed these price hikes would be absorbed easily as other substitutes like gas face a supply crunch, while imported coal remains significantly expensive.

Monopoly business: GMDC is the only merchant lignite miner in Gujarat and with lignite's characteristic of burning within 7-15 days, depending on the temperature, it is not viable to import from other states. The company sells lignite on ex-mine basis (where cash is paid in advance) and transportation is arranged by the customer.

Earnings estimates broadly in line with consensus estimates: Our FY13E/FY14E revenue estimates are just 5%/6% above consensus estimates, respectively, resulting in higher EBITDA and PAT estimates. Our EBITDA estimates for FY13E/FY14E are 5%/7%, respectively, above street estimates, while our PAT estimates are 7%/4%, respectively, above street expectations for the same period.

Outsourcing of power plant to result in higher plant load factor (PLF): GMDC has outsourced power plant operation and maintenance (O&M) activity to Korean Power Company (KEPCO), which has indicated running the plant at a PLF of 75% versus past five years' average of 51% due to technical glitch. Higher PLF would result in strong earnings for GMDC, as fixed costs recovery is dependent on PLF.

Valuation: GMDC trades at P/E multiple of 9.0x/8.4x/7.3x FY13E/FY14E/FY15E earnings, respectively, while EV/EBITDA estimates are at 4.8x/4.3x/3.5x for the same period, respectively. The current P/E multiple is similar versus the past 10 years' median of 8.9x (1-year forward) while EV/EBITDA is below the past 10 years' median of 6.4x (1-year forward). We like to highlight here that average RoE of 26.8% over FY13E-FY15E is above historical average of 17.5% and hence a re-rating is inevitable.

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Revenue	14,160	16,341	20,778	23,457	27,173
YoY (%)	*32.9*	*15.4*	*27.2*	*12.9*	*15.8*
EBITDA	6,540	7,619	10,620	11,860	13,720
EBITDA (%)	*46.2*	*46.6*	*51.1*	*50.6*	*50.5*
EBITDA growth (%)	*35.0*	*16.5*	*39.4*	*11.7*	*15.7*
PAT	3,748	4,868	6,954	7,483	8,629
EPS (Rs)	11.8	15.3	21.9	23.5	27.1
YoY (%)	*33.9*	*29.9*	*42.8*	*7.6*	*15.3*
RoE (%)	*24.4*	*26.2*	*30.0*	*25.9*	*24.4*
RoCE (%)	*22.5*	*25.6*	*30.0*	*25.9*	*24.4*
P/E (x)	16.8	12.9	9.0	8.4	7.3
EV/EBITDA (x)	9.2	7.2	4.8	4.3	3.5

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Mining

CMP: Rs197

Target Price: Rs265

Upside: 34%

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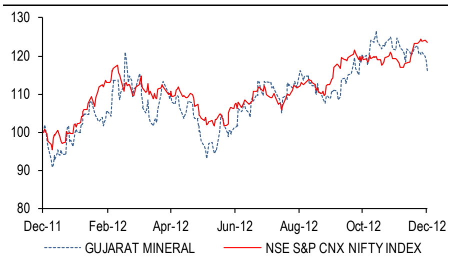
Key Data

Current Shares O/S (mn)	318.0
Mkt Cap (Rsbn/US$bn)	62.8/1.2
52 Wk H / L (Rs)	222/151
Daily Vol. (3M NSE Avg.)	287,110

Share holding (%)	Q4FY12	Q1FY13	Q2FY13
Promoter	74.0	74.0	74.0
FII	7.0	7.0	6.6
DII	12.8	13.3	13.7
Corporate	0.8	0.7	0.9
General Public	5.5	4.9	4.8

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
GMDC	(8.0)	13.2	12.8
Nifty Index	3.0	14.3	21.9

Source: Bloomberg

Exhibit 1: Operations summary

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E
Mine-wise lignite production (mt)										
Panandhro	5.8	7.1	8.1	3.6	2.8	2.7	2.6	2.9	3.0	3.0
Rajpardi	0.8	0.1	0.4	1.0	1.0	1.1	0.9	1.0	1.0	1.0
Mata's Madh	0.5	0.5	0.7	2.2	2.9	3.7	3.6	3.5	3.6	4.3
Tadkeshwar	0.0	0.3	0.8	0.9	1.0	1.9	2.2	2.4	2.5	2.5
Bhavnagar	-	-	-	0.4	0.7	0.9	2.1	2.8	3.0	3.6
Umarsar	-	-	-	-	-	-	-	-	0.6	1.0
Total	**7.1**	**8.0**	**10.0**	**8.1**	**8.4**	**10.2**	**11.3**	**12.6**	**13.7**	**15.4**
Sales volume (mt)										
Lignite	7.1	8.0	10.0	8.1	8.4	10.2	11.3	12.6	13.7	15.4
Bauxite	0.1	0.1	0.5	0.1	0.3	0.7	0.9	1.2	1.4	1.4
Power (mu)	18	336	866	957	1,204	1,038	882	1,404	1,612	1,750
Blended realisation (Rs/tn)										
Lignite	593	645	783	916	879	1,061	1,150	1,308	1,393	1,477
Bauxite	841	650	770	5,130	1,303	988	850	900	900	900
Power (Rs/unit)	3.9	1.9	1.8	1.9	2.3	2.4	2.2	2.6	2.8	2.9
Financials (Rsmn)										
Net sales	4,362	5,890	9,858	9,881	10,652	14,160	16,341	20,778	23,457	27,173
EBITDA	1,657	2,806	5,299	4,555	4,844	6,540	7,619	10,620	11,860	13,720
PAT	352	945	2,639	2,363	2,799	3,748	4,868	6,954	7,483	8,629
EPS (Rs)	1.1	3.0	8.3	7.4	8.8	11.8	15.3	21.9	23.5	27.1

Source: Company, Nirmal Bang Institutional Equities Research

Valuation

GMDC trades at P/E multiples of 9.0x/8.4x/7.3x FY13E/FY14E/FY15E earnings respectively, while EV/EBITDA are at 4.8x/4.3x/3.5x, respectively, for the same period. The current P/E multiple is similar compared to past 10 years' median of 8.9x (one-year forward) while EV/EBITDA is below the past 10 years' median of 6.4x (one-year forward). We believe that given the consistent earnings CAGR of 22% in EBITDA over the past 10 years and 18% CAGR over the past five years, GMDC is likely to command a higher multiple compared to companies in normal commodity business. **We like to highlight here that average RoE of 26.8% over FY13E-FY15E is above the historical average of 17.5% and hence a re-rating is inevitable. Our target price of Rs265 (6.0x FY14E EV/EBITDA) is 34% above the CMP.**

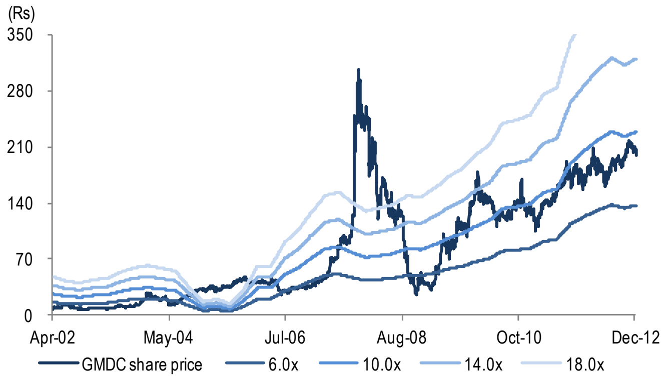
Exhibit 2: Valuation summary (Rsmn)

EV/EBITDA (x)	6.0
EBITDA	11,860
EV	71,159
Debt	-
Cash*	11,539
Capital work-in-progress	100
Core market capitalisation	82,798
Core value (Rs/share)	260.4
Value of investments (Rs/share)	4.2
Target price (Rs/share)	264.5
Upside (%)	***34.0***

Note: Cash includes inter-corporate deposit with Gujarat State Financial Corporation and it is shown in loans & advances

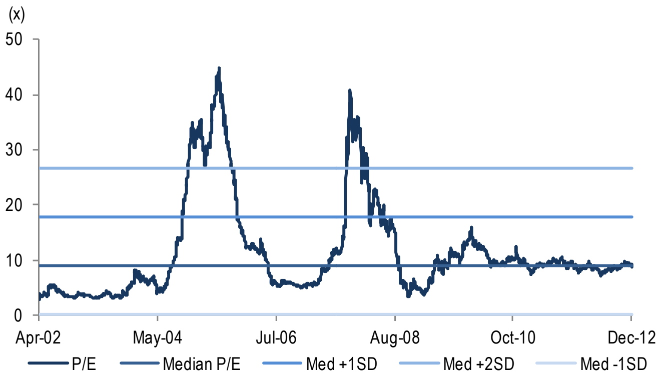
Source: Nirmal Bang Institutional Equities Research

Exhibit 3: 1-year forward P/E



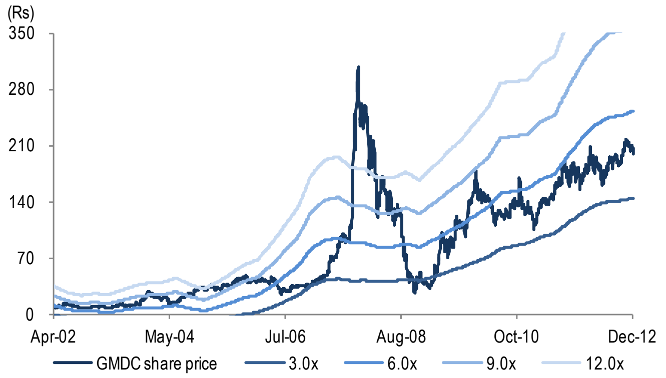
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: 1-year forward average P/E



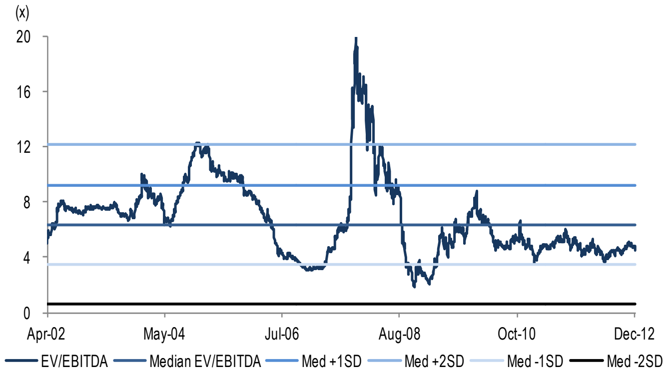
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: 1-year forward EV/EBITDA



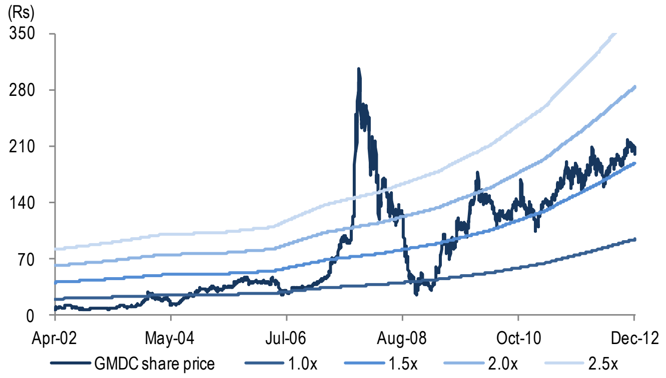
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: 1-year forward average EV/EBITDA



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: 1-year forward P/BV



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: 1-year forward average P/BV

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: Average P/E, RoE

Exhibit 10: Average EV/EBITDA, RoE

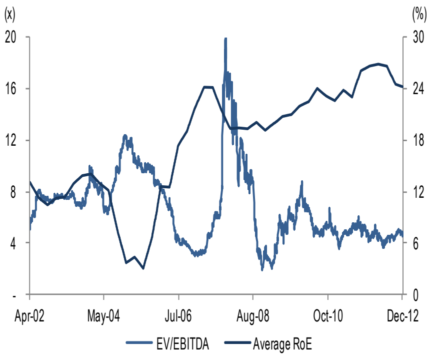


Exhibit 11: Average P/BV, RoE

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Investment Arguments

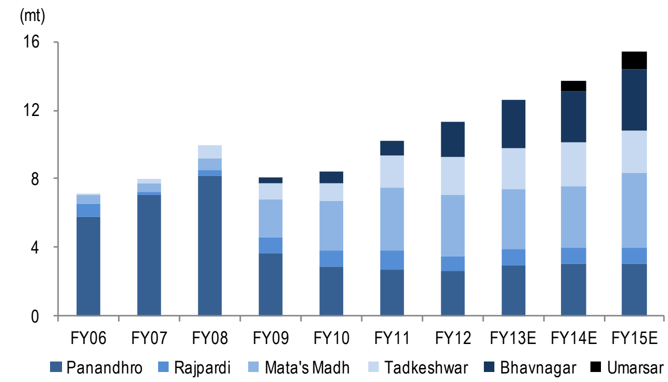
Monopoly business

GMDC is the only merchant lignite miner allowed to operate in Gujarat. Due to its dominant position and the fact that the nearest coal mine is around 750km away from Gujarat, lignite has been a sellers' market. Customers first deposit money in GMDC's bank account for the required lignite from the allocated quota in each mine. A customer has to buy certain quantity from each mine in a three-month period or else his registration gets cancelled. Costs on transporting lignite from the mine to the customer's plant have also to be borne by the customer. Our interaction with customers from the textile industry has revealed that lignite demand is likely to remain very strong as it helps them to substitute costlier imported coal or gas.

Volume growth to remain strong

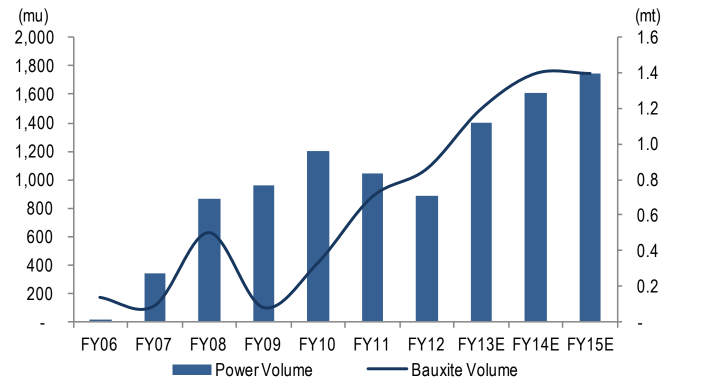
GMDC has shown a steady 10.1% volume growth over the past eight years (FY04-FY12) on the back of commissioning new mines. **We expect a 10.7% CAGR in lignite volume over FY12-FY15E on account of commissioning of new Umarsar mine and brownfield expansion expected at Bhavnagar and Math's Madh mine.** Although the expansion is stuck due to delay in obtaining environment and forest clearance, we believe, post Gujarat assembly elections the clearing process would be fast-tracked. Being a pro-industrial state and heavy dependence on lignite as a fuel would ensure the approval process gains momentum. **GMDC is likely to achieve a strong 31% CAGR over FY12-FY15E in bauxite volume due to ramp-up at its existing mines. We also expect the company to achieve a 26% CAGR in power generation volume,** largely due to improvement in plant load factor (PLF) at Arkimota power plant and commissioning of new wind power units.

Exhibit 12 : Mine-wise lignite volume



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Bauxite and power volume

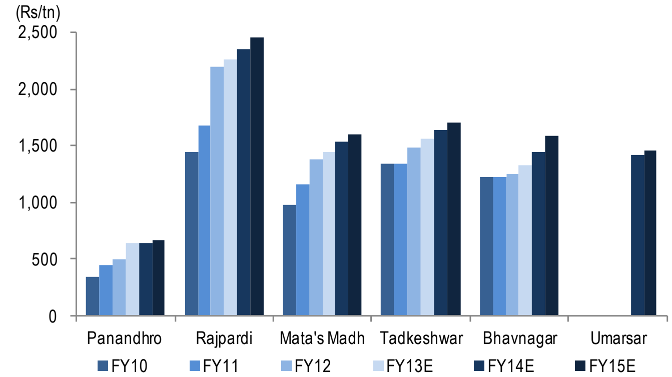


Source: Company, Nirmal Bang Institutional Equities Research

Steady improvement in realisation likely

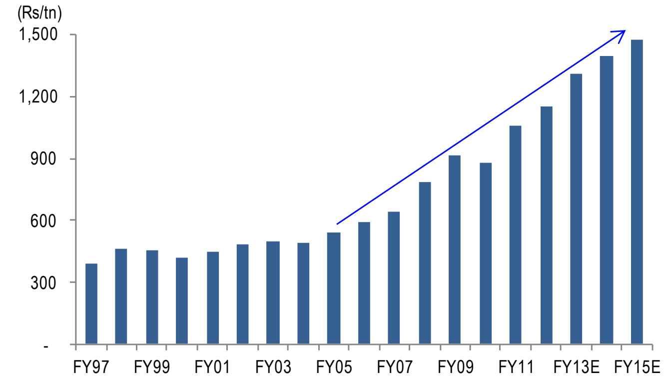
GMDC has achieved a 11.3% CAGR in realisation over FY04-FY12, largely driven by the rise in realisation barring Panandhro, at regular intervals. The company increased Panandhro mine's realisation by 27% in 2QFY13, retrospectively, from FY12. Given the strong competitive position, we believe the company would be able to go for adequate prices hikes at regular intervals, which would keep cost inflation in check. **The company is contemplating Rs100/tn price hike in January 2013 (it has delayed announcing the price hike due to assembly elections in December 2012). Thereafter, we expect a 4% price hike each in 4QFY14 and 4QFY15.** We are assuming 8.7% CAGR in lignite realisation on a blended basis over FY12-FY15E, while barring Panandhro mine realisation, the increase is likely to be at a 7.6% CAGR over FY12-FY15E. The realisation would also increase due to pyrite beneficiation project at Bhavnagar. Barring this, realisation excluding Panandhro, is likely to increase by 6.8% over FY12-FY15E. The alternative to lignite remains gas and imported coal. Gas availability and its pricing continue to remain detrimental for its higher usage, while imported coal is significantly expensive compared to lignite. Considering the above facts and looking at the past trend, we believe the company can surprise positively on the realisation front.

Exhibit 14 : Mine-wise realisation



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Blended realisation



Source: Company, Nirmal Bang Institutional Equities Research

Employee costs – one of the lowest among metal and mining PSUs

GMDC's average employee costs stood at 8.9% of revenue for the past three years, significantly lower compared to Coal India, which has average employee costs of around 34.0% for the same period. Outsourcing of mining activity coupled with no overhang of legacy mines is the primary reason behind significantly lower employee costs for GMDC. This can be gauged by the fact that GMDC's lignite and bauxite output per employee is 5,917tn per year as compared to just 1,171tn per year for Coal India. Costs per employee, based on past three years' average, remain broadly the same for Coal India and GMDC, at Rs0.54mn and Rs0.59mn, respectively. Higher number of employees due to legacy mines remains one of the main reasons for such a stark difference in overall employee costs and this is visible in terms of production per employee. Besides this, GMDC's mines are relatively new and open-cast (out of five mines, three mines started operations in the past eight years) as compared to Coal India, which is running open-cast as well as underground mines since 35-40 years. An important point to note is that GMDC has the ability to pass on any increase in employee costs through price hikes, unlike Coal India, as raising coal prices attract national-level political attention and socio-economic interest. We have taken an adequate 15% CAGR in employee costs over FY12-FY15E as compared to 13% CAGR in employee costs over FY04-FY12. The next Pay Commission report is due in FY17 and therefore the rise in employee costs would remain moderate in coming years.

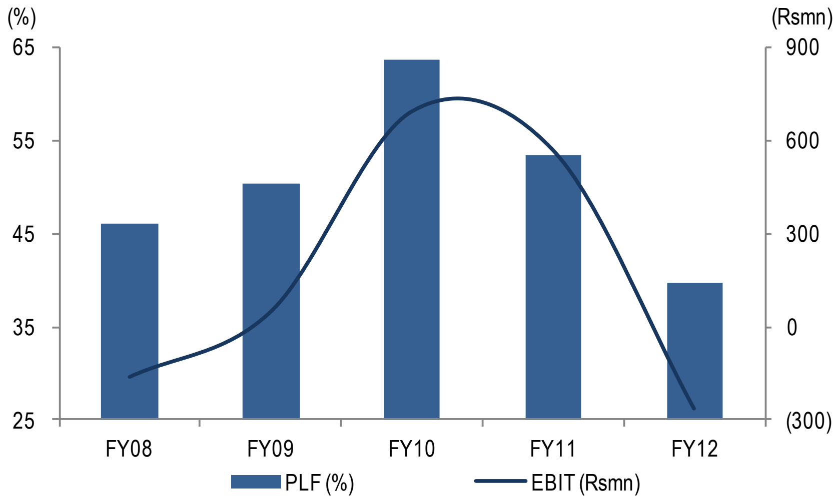
New mines to drive volume, although three-four years away from production

GMDC is working on several new mines i.e. Umarsar, Lakhpat, Gala and Dalmai Padal, which are likely to provide volume growth in the coming years. The mine likely to start operations in FY14 is Umarsar mine at Lakhpat, Kachchh. This mine has reserves of around 30mt and its capacity is seen at 1mt per annum. The other three greenfield mining projects are at approval stage and are likely to start operations from FY16. The first one is Lakhpat at Punrajpur in Kutch district, which has reserves of 50mt, while annual capacity is seen at 1.5mt. The second one is Gala at Tadkeshwar in Surat district, which has reserves of 35mt, while annual capacity is seen at 2.0mt-2.5mt. The third one is Damlai Padal at Rajpardi in Bharuch district with reserves of 30mt, while its annual capacity is seen at 1.5mt. GMDC's oldest mine Panandhro is expected to exhaust its reserves in the next four years, but the company is likely to start mining in Panandhro North, which is expected to replace Panandhro's current volume.

Outsourcing of power plant operations to result in higher PLF

GMDC has not been able to run its lignite-based power plant with much success due to technical problems. The company invested Rs14,000mn to set up a 250MW power plant. Past five years' PLF average is just 50.7%, with FY12 PLF registering an all-time low of 39.8%. Although, the PLF improved from 39.8% in FY12 to 45.0% in 1QFY13 and 57.0% in 2QFY13, it remains lumpy in nature. The company has outsourced operating and maintenance (O&M) of the plant to Korean Power Company (KEPCO), which has indicated running the plant at a PLF of 75%. Higher PLF results in strong earnings rebound for GMDC as recovery of fixed costs is dependent on PLF. The contract is likely to come into effect from 2QFY14. However, considering the lumpy nature of PLF in the past, we are assuming 60% PLF in FY14E-FY15E. We would like to await actual improvement in PLF before revising our numbers upward. The company doesn't have any plan to set up lignite-based power plant in the future barring Bhavnagar Energy, which is setting up a 500MW power plant. The company holds a 26% stake in this entity with six other PSUs. We believe this investment will remain positive, as GMDC has already been assigned mine development work and it would sell lignite to Bhavnagar Energy at cost plus basis.

Exhibit 16: ArkiMota power plant's PLF, power EBIT



Source: Company

Wind power investment – marginally value dilutive but still better than cash surplus

GMDC has been investing in wind power since the past five years and it currently has a capacity of 100.5MW, which would be expanded to 150.5MW by the end of FY13E. The company intends to add additional 50MW wind power capacity in FY14E with a capex of Rs3,000mn, which would take total wind power capacity to 200.5MW. The management has indicated that it does not plan to add wind power capacity thereafter. **Wind power segment is marginally value dilutive for the combined entity as it gives a RoE of around 10%-11% (post tax) as compared to overall RoE of around 26%. However, we would like to state here that it is better than a 9% RoE (pre-tax) generated by cash surplus.** We have assumed wind power tariff of Rs3.56/unit. Wind power revenue would account for 7.3% and 8.1% of total revenue in FY14E and FY15E, respectively.

Pyrite separation project to increase realisation at Bhavnagar mine

GMDC is likely to install a 3.0mt pyrite separation plant, 1.5mt in the first phase, at Bhavnagar mine in order to reduce sulphur content. This project will result in around Rs400/tn increase in realisation from the Bhavnagar mine. The company has received environment clearance for the same in 2QFY13 and it is awaiting permission and NoC (No objection Certificate) from Gujarat Pollution Control Board (GPCB). GMDC is likely to go for project tendering post assembly elections in the state and its plant should be ready in the next six months. We are factoring this project's benefits to start accruing from 4QFY14.

Future projects

GMDC has announced various projects in order to diversify from the lignite mining business. However, these projects are not expected to contribute meaningfully in the next three-four years due to their high gestation period. We have valued these projects at book value, i.e. wherever the company has made any investment, we have taken it at face value. We have assumed capex of Rs2,000mn on these projects over FY14E-FY15E, which is 15.2% of total capex during the said period.

Gujarat Jaypee Cement & Infrastructure: GMDC has formed a joint venture with Jaypee Associates for setting up a 2.4mt cement project based on limestone supply from the former. The land required for the project has been identified and an application has been made to the concerned department for allocation. The company is still awaiting the allocation order and further progress is likely post land allocation.

Bhavnagar Energy Company (BECL): GMDC along with seven other PSUs have formed a joint venture company for setting up a 500MW power plant based on lignite which would be supplied from three lignite mines of Gujarat Power Corporation (GPCL). GMDC holds a 26% stake in BECL, and the lignite would be supplied on cost plus basis. A tripartite agreement between GMDC, GPCL and BECL was executed in March 2012 and as per the terms of this agreement, GMDC has been entrusted the work of mine developer and operator (MDO) to develop the project.

Gujarat State Mining & Resources Corporation: GMDC and Sunflag Iron & Steel Company have formed a joint venture company to acquire coking coal blocks (to be allocated under the government dispensation route) for setting up a coke oven plant in Gujarat. The company has applied to the government for allocation of coal blocks. The list of coal blocks to be allocated by the government has been notified and the company is planning to make an application for allocation of identified blocks. Further progress in the project depends on coal block allocation.

Gujarat Credo Mineral Industries: GMDC and Credo Mineral Industries have formed a joint venture company to set up zeolite, proppant and low grade bauxite beneficiation project based on bauxite supply from GMDC. The land required for the project has been acquired near GMDC's Naredi mines and all government clearances required for implementation of the project have been obtained. The project for beneficiation of low grade bauxite (phase-I) is at the commissioning stage.

Alumina refinery and aluminium smelter: GMDC along with National Aluminium Company (NALCO) have decided to set up an alumina refinery and aluminium smelter in Kutch district based on the bauxite to be supplied by GMDC. The proposal for 26% equity participation by GMDC in the company has been approved by the Gujarat government.

Speciality Alumina Chemicals: GMDC along with Alumina Refinery Pvt Ltd is setting up a project for speciality aluminium chemicals plant in Kutch based on the bauxite to be supplied by GMDC from Kutch. Land required for the project has already been acquired and most government clearances have also been obtained.

Fluorspar beneficiation plant: GMDC along with Gujarat Fluorochemicals and Navin Fluorine International are setting up a fluorspar beneficiation project comprising a single largest plant having a capacity of 40,000tn/day at Kadipani. The company is still in the process of identifying suitable technology for the project.

Peer comparison

GMDC's superior performance stands out compared to other mining companies considering its reasonable valuation. GMDC's RoE is lower compared to Coal India, but it is partially attributed to investment in the power generation segment. Nonetheless, on the basis of valuation multiple, Coal India is sizeably expensive compared to GMDC. In comparison with other mining companies, GMDC stands out due to the fact that it is still selling its output at regulated rate as compared to the market rate adopted by NMDC and MOIL. GMDC's earnings multiples are similar compared to NMDC and MOIL, despite higher RoE.

Exhibit 17: Peer summary

	Last Price	Market cap.	*Performance (% chg)*			*EBITDA growth (%)*		*PAT growth (%)*		P/E (x)		P/BV (x)		*RoE (%)*		EV/EBITDA (x)	
Name of company	(Rs)	US$ bn	*3M*	*6M*	*12M*	*FY13E*	*FY14E*	*FY13E*	*FY14E*	FY13E	FY14E	FY13E	FY14E	*FY13E*	*FY14E*	FY13E	FY14E
Coal India	354	40.6	*(6.9)*	*6.1*	*14.8*	*10.7*	*11.7*	*10.9*	*10.0*	13.8	12.5	4.6	3.8	*35.7*	*32.4*	8.7	7.7
MOIL	261	0.8	*(2.3)*	*(5.4)*	*14.4*	*3.9*	*6.0*	*4.6*	*5.9*	10.3	9.7	1.6	1.4	*16.3*	*15.4*	4.9	4.6
NMDC	157	11.4	*(18.2)*	*(5.1)*	*(7.1)*	*(9.1)*	*8.4*	*(6.6)*	*8.9*	9.2	8.4	2.1	1.8	*23.3*	*21.5*	4.8	4.3
GMDC	197	1.2	*3.8*	*13.2*	*12.8*	*39.4*	*11.7*	*42.8*	*7.6*	9.0	8.4	2.4	2.0	*30.0*	*25.9*	4.8	4.3

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Our estimates versus consensus projections

Our FY13E/FY14E revenue estimates are just 5%/6% above consensus estimates, respectively. The higher revenue is reflected in our EBITDA and PAT estimates. Our EBITDA estimates for FY13E/FY14E are 5%/7% above consensus estimates, respectively, while our PAT estimates are 7%/4% above consensus projections, respectively, for the same period. However, we would like to highlight here that consensus estimates may not reflect the true picture considering low active coverage on the stock. There are no active FY15 consensus estimates.

Exhibit 18: Our estimates versus Bloomberg consensus projections

(Rsmn)	NBIE estimates			Bloomberg consensus estimates			*Deviation (%)*		
	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	*FY13E*	*FY14E*	*FY15E*
Net sales	20,778	23,457	27,173	19,735	22,080	NA	*5.3*	*6.2*	*NA*
EBITDA	10,620	11,860	13,720	10,102	11,065	NA	*5.1*	*7.2*	*NA*
PAT	6,954	7,483	8,629	6,513	7,200	NA	*6.8*	*3.9*	*NA*

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Key risks

Over-investment in wind power

The company's management has indicated that it would not add wind power capacity beyond 200MW, but in case it decides to expand wind power capacity the result would be lower return ratios in the coming years. **GMDC has invested close to 32.1% of total operating cash flow in the power segment over FY07-FY12 and we expect additional power capex to be close to 31.6% of operating cash flow over FY13E-FY15E.** As a prudent option, the company should return surplus cash in the form of dividend.

Delay in obtaining mining licence

The company's next phase of volume growth is highly dependent on new lignite, bauxite and limestone mines. Although Gujarat is very rich in terms of lignite, bauxite and limestone reserves, political and regulatory hurdles remain a concern. However, Gujarat being a pro-industrial state, we expect these problems to get resolved soon.

Political pressure on company's pricing autonomy

The company has the freedom to increase lignite prices and the same has been witnessed over the past decade. Customer lobbies are continuing to exert pressure to lower prices, but they have not met with much success. Although a change in the political situation can alter the dynamics, we believe the company would still maintain its pricing autonomy given its monopoly position and lignite dynamics. **Our sensitivity analysis shows that a 5% drop in realisation leads to 8%/9% decline in EBITDA and PAT, respectively.**

Land acquisition

Land acquisition continues to remain a challenge for the company for its mining projects. We like to highlight here that availability of land is not a concern, but high land prices is a problem. Tadkeshwar, Bhavnagar and Dalmai Padal are a few areas where the company still has to acquire private land.

Financials (standalone)

Exhibit 19: Income statement

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Revenue	**14,160**	**16,341**	**20,778**	**23,457**	**27,173**
YoY growth (%)	*32.9*	*15.4*	*27.2*	*12.9*	*15.8*
Royalty and rent	1,026	878	1,060	1,252	1,476
% of sales	*7.2*	*5.4*	*5.1*	*5.3*	*5.4*
Overburden removal charges	2,223	2,673	3,463	4,045	4,704
% of sales	*15.7*	*16.4*	*16.7*	*17.2*	*17.3*
Employee expenses	1,516	1,081	1,255	1,450	1,639
% of sales	*10.7*	*6.6*	*6.0*	*6.2*	*6.0*
Admin. & other expenses	2,854	4,089	4,380	4,850	5,635
% of sales	*20.2*	*25.0*	*21.1*	*20.7*	*20.7*
EBITDA	**6,540**	**7,619**	**10,620**	**11,860**	**13,720**
EBITDA margin (%)	*46.2*	*46.6*	*51.1*	*50.6*	*50.5*
Depreciation	930	1,083	1,363	1,543	1,783
EBIT	**5,611**	**6,536**	**9,257**	**10,317**	**11,936**
Interest expenses	153	78	0	0	0
Other income	388	720	1,243	1,004	1,118
PBT	**5,846**	**7,177**	**10,501**	**11,321**	**13,055**
Provision for tax	2,098	2,309	3,546	3,838	4,426
Effective tax rate (%)	*35.9*	*32.2*	*33.8*	*33.9*	*33.9*
PAT	**3,748**	**4,868**	**6,954**	**7,483**	**8,629**
YoY growth (%)	*33.9*	*29.9*	*42.8*	*7.6*	*15.3*
PAT margin (%)	*25.8*	*28.5*	*31.6*	*30.6*	*30.5*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20:Cash flow

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
EBIT	5,611	6,536	9,257	10,317	11,936
(Inc.)/dec. in working capital	(1,079)	140	(3,226)	(552)	(2,557)
Cash flow from operations	**4,531**	**6,676**	**6,031**	**9,765**	**9,380**
Other income	388	720	1,243	1,004	1,118
Depreciation	930	1,083	1,363	1,543	1,783
Interest paid (-)	153	78	0	0	0
Tax paid (-)	1,846	2,477	3,369	3,646	4,204
Dividends paid (-)	926	1,108	1,109	1,488	1,488
Net cash from operations	**2,925**	**4,816**	**4,160**	**7,178**	**6,589**
Capital expenditure (-)	2,751	3,335	3,337	7,800	5,600
Net cash after capex	**173**	**1,481**	**823**	**(622)**	**989**
Inc./(dec.) in short-term debt	0	0	0	0	0
Inc./(dec.) in long-term debt	(831)	(1,330)	0	0	0
(Inc.)/dec. in investments	(1)	3	0	0	0
Equity issue/(buyback)	0	0	0	0	0
Cash from financial activities	**(831)**	**(1,327)**	**0**	**0**	**0**
Others	50	60	(0)	0	0
Opening cash	958	351	564	1,387	766
Closing cash	351	564	1,387	766	1,755
Change in cash	(607)	214	823	(622)	989

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Balance sheet

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Share capital	636	636	636	636	636
Reserves and surplus	16,062	19,821	25,287	31,282	38,051
Shareholders' fund	**16,698**	**20,457**	**25,923**	**31,918**	**38,687**
Long-term borrowings	1,330	0	0	0	0
Short-term borrowing	0	0	0	0	0
Total loan fund	**1,330**	**0**	**0**	**0**	**0**
Deferred tax liability	2,537	2,930	3,108	3,300	3,521
Total liabilities	**20,565**	**23,388**	**29,031**	**35,218**	**42,208**
Application of funds					
Gross fixed assets	22,362	25,574	28,874	36,274	40,374
Less: Accumulated dep.	7,188	7,997	9,360	10,903	12,687
Net fixed assets	15,174	17,578	19,514	25,371	27,688
Capital work in progress	188	63	100	500	2,000
Total fixed assets	**15,362**	**17,641**	**19,614**	**25,871**	**29,688**
Investments	1,326	1,327	1,327	1,327	1,327
Inventories	680	654	829	953	1,106
Sundry debtors	258	444	569	643	744
Cash and bank balances	351	564	1,387	766	1,755
Loans and advances	8,409	11,521	15,834	17,058	20,561
Total current assets	**9,698**	**13,184**	**18,620**	**19,419**	**24,166**
Trade payables	644	670	874	993	1,153
Other current liabilities	2,935	4,634	5,818	6,568	7,609
Provisions	2,241	3,459	3,838	3,838	4,210
Net current assets	**3,877**	**4,420**	**8,090**	**8,020**	**11,194**
Total assets	**20,565**	**23,388**	**29,031**	**35,218**	**42,208**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Key ratios

Y/E March	FY11	FY12	FY13E	FY14E	FY15E
Per share (Rs)					
EPS	11.8	15.3	21.9	23.5	27.1
Book value	52.5	64.3	81.5	100.4	121.7
Valuation (x)					
P/E	16.8	12.9	9.0	8.4	7.3
P/BV	3.8	3.1	2.4	2.0	1.6
EV/EBITDA	9.2	7.2	4.8	4.3	3.5
EV/sales	4.2	3.4	2.5	2.2	1.8
M-cap/sales	4.4	3.8	3.0	2.7	2.3
Return ratios (%)					
RoE	24.4	26.2	30.0	25.9	24.4
RoCE	22.5	25.6	30.0	25.9	24.4
Margin ratios (%)					
EBITDA margin	46.2	46.6	51.1	50.6	50.5
PBIT margin	39.6	40.0	44.6	44.0	43.9
PBT margin	40.2	42.1	47.7	46.3	46.1
PAT margin	25.8	28.5	31.6	30.6	30.5
Turnover ratios					
Asset turnover ratio (x)	1.6	1.6	1.4	1.5	1.5
Avg. collection period (days)	6.6	9.9	10.0	10.0	10.0
Avg. payment period (days)	30.9	28.1	31.4	31.2	31.3
Solvency ratios (x)					
Net debt-equity ratio	0.1	0.0	0.0	0.0	0.0
Interest coverage ratio	42.8	97.1	0.0	0.0	0.0

Source: Company, Nirmal Bang Institutional Equities Research

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Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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