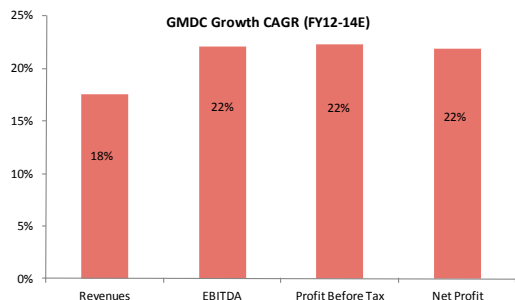


October 17, 2012

Metals & Mining-Coal Sector Outlook - Positive



Recommendation	HOLD
CMP (₹)	205
Price Target (₹)	224
Upside (%)	9
52 Week H / L ₹	213/151
BSE 30	18578

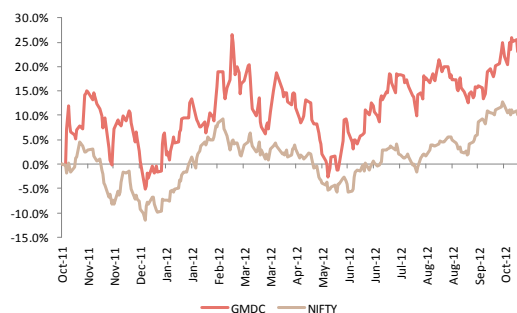
Key Data

No. of Shares, Mn.	318
Mcap, ₹ Mn	65190
Mcap, USD Mn @ ₹55	1230
2 W Avg Qty (BSE+NSE) Mn	0.4

Share holding, Sept'12

Promoters	74.0
FII	6.1
DII	13.7
Public & Others	6.2

Performance	1 M	3 M	6 M	12 M
Stock Return %	6.0	4.1	9.6	23.0
Relative Return %	4.7	-4.6	1.5	12.9



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GMDC's Q2FY13 results were well above our estimates on account of one off items in revenue as well in other income. Revenues included ₹380 mn as arrears due to price hike approved for its Panandhro mine by ₹150 per tonne from FY12 onwards. Other income also included ₹270 mn write back on account of its mine closure expenses. However even after adjusting such one-offs, results were better than estimates. Lignite volumes for Q2FY13 were inline with our estimate of 1.96 mn tonnes which implies a growth of 20%YoY. However higher sales at Rajparddi and Panandhro mine made GMDC to beat our estimate on revenue front as these mines enjoy better realisations. Power plant continued with its subdued performance by operating at 48% PLF whereas windmill performance was stable during the quarter.

Bhavnagar mine ramping up well, Panandhro too surprised

GMDC's Rajparddi mines produced 0.2mn tonnes in Q2FY13 versus 0.02 mn tonnes in Q2FY12 which also surprised us. We expected Mata no Madh mine to produce 0.86 mn tonnes against which it produced 0.6mn tonnes. However, such volume loss was made up by Rajparddi and Panandhro mines. As Rajparddi mine enjoys high lignite prices in comparison to its other mines, higher volume at this mine beat our revenue estimates. Panandhro mine too reported a healthy volume of 0.68 mn tonnes, for which price hike has been approved recently. Further Bhavnagar mine is maintaining its robust performance by registering 43% growth YoY. As management contemplated to double volume at Bhavnagar mine, the volume growth validates the same.

Thermal Power remains a drag though wind power stands stable

On power front, lower PLF resulted into underrecovery of its fixed costs during Q2FY13. Though headline power EBIT was reported at ₹307 mn, much of it was from windmill and arrears of previous year to the tune of ₹100 mn. Further if we deduct qtrly depreciation of ₹225mn, the power segment continued to be in red. PLF at thermal plant remained low at 48% in Q2FY13 against 45% in Q1FY13. Wind mill gave some resilience to its power segment by generating 132% higher units YoY, but that was primarily due to additional capacities and PLF at wind mill was at 40% during the quarter.

Valuation and Recommendation

At CMP of ₹205 stock is trading at an EV/EBIDTA of 5.0x FY14E EBIDTA. It has applied to central govt for increasing its capacity in two of its mines, Kutch and Bhavnagar. We believe such capacity addition holds significant potential for company's future growth. Along with capacity addition price hike for its lignite too holds the key. However stabilization of its power plant in near term would be key concern. We have reduced our FY14E lignite volume estimates by 0.2 mn tonnes to 14.95mnt incorporating management guidance. Considering above we expect GMDC to maintain a CAGR of 18% in sales for FY12-FY14E. We roll forward our valuation to FY14E and value GMDC at 5.5x (6x earlier) its FY14E EBIDTA and maintain our HOLD recommendation with revised target price of ₹224 from ₹205 earlier.

Financials	Revenues	EBIDTA	Adj NP	Adj. EPS	P.E	EV/EBIDTA	ROE
₹ mn				₹	x	x	%
FY10	10652	4651	2746	8.9	23.2	14.3	21
FY11	14148	6587	3748	11.8	17.4	10.0	24
FY12P	16307	7743	5005	15.3	13.4	8.3	27
FY13E	19648	10241	6603	20.8	9.9	6.1	28
FY14E	22556	11552	7440	23.4	8.8	5.0	24

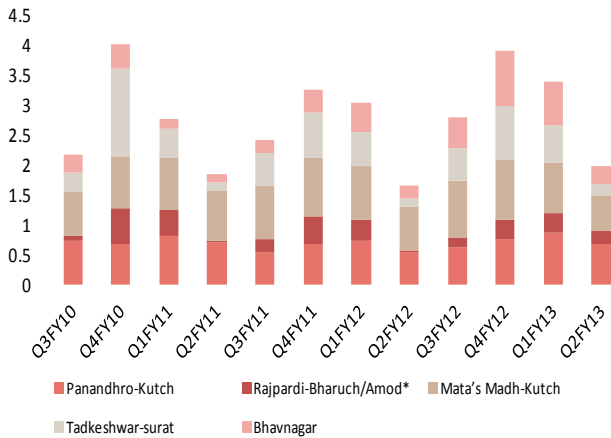
Source: Company, Sunidhi Research



Mining segment continues to hold strength

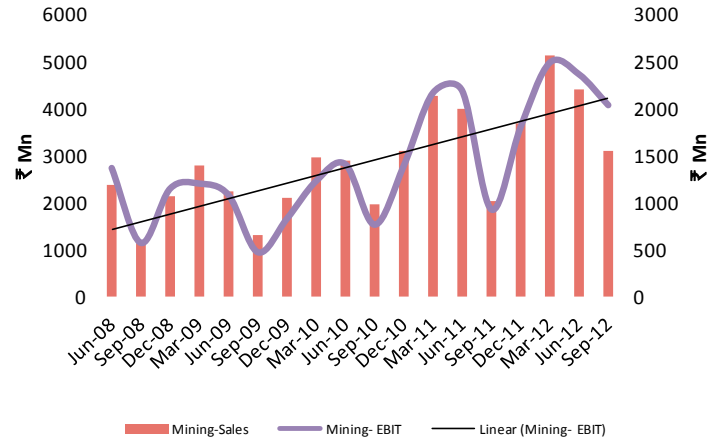
Lignite mining has been improving continuously by maintaining 11-15% annual growth. For Q2FY13 lignite mining reported a volume growth of 20%YoY. Total lignite volume for Q2FY13 was at 1.96 mn tonnes against 1.64 mn tonnes in Q2FY12. Front runner for this performance was Bhavnagar mine which reported healthy 43% growth YoY. We understand the ramping up of this mine is very important as management expects to double the production of lignite from this mine. In this context the company has already applied to Government for doubling up of its capacity at Bhavnagar and Kutch mines.

Exhibit 1: Volumes



Source: Company, Sunidhi Research

Exhibit 2: Mining sector performance

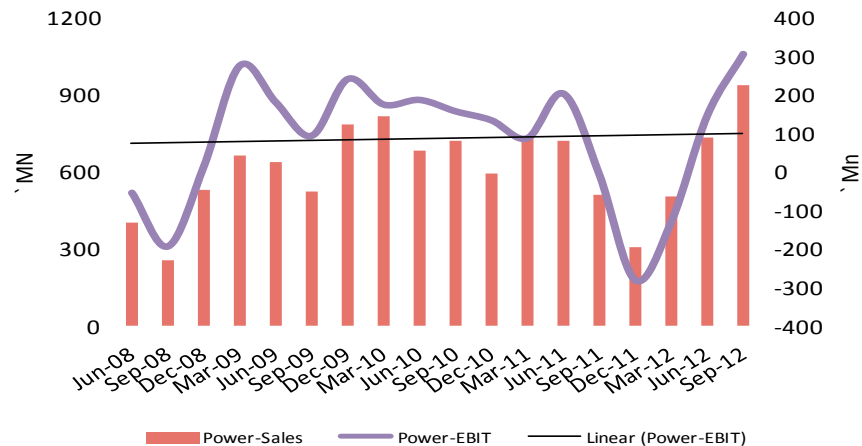


Source: Company, Sunidhi Research

Power remains a drag

Power generation at its 250MW lignite based power plant was merely 266 mn units in Q2FY13 vs 245mn units in Q1FY13. Due to such lower PLF company still continues to bleed on net level. Plant was operating below 50% PLF compared to 60%+ in Q1FY12. Though headline power EBIT was reported at ₹307 mn, much of it was from windmill and arrears of previous year to the tune of ₹100 mn. Further if we deduct qtrly depreciation of ₹225mn, the power segment continued to be in red. We believe Q4FY13 to be a better quarter as the company has indicated to award O&M contract to third party from Q3FY13 onwards. Such outsourcing may lead to straightway savings of ₹100mn plus as the company expects plant to operate at 60% PLF post outsourcing.

Exhibit 3: Power sector performance



Source: Company, Sunidhi Research



Quarterly Financials

Particulars (₹ Mn)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY	QoQ
Net Sales	2491	3604	4634	4671	2441	3840	5370	4965	3822	57%	-23%
Total Income	2491	3604	4634	4671	2441	3840	5370	4965	3822	57%	-23%
Increase/Decrease in Stock	-36	72	10	103	23	19	-109	6	64	183%	984%
Power and Fuel	153	237	244	208	176	362	440	274	191	8%	-30%
Stores Consumed	9	6	8	0							
Employees Cost	356	433	486	267	248	314	252	258	287	16%	11%
Overburden removal	310	514	797	725	424	682	842	850	554	31%	-35%
Royalty and dead rent	217	200	437	392	138	225	280	263	180	31%	-32%
Operational Expenditure	213	209	462	205	175	291	429	261	176	1%	-33%
Mine closure	157	165	121	236	170	177	490	198	97	-43%	-51%
Clean energy cess		130			23	169	252	170	96	319%	-43%
Project development	6	6	6	6	6	6	32	-	-	-	-
Prior period Adjustments	-3	3	24	12	8	4	1	-	-	-	-
Total Expenditure	1382	1975	2597	2155	1391	2249	2909	2281	1646	18%	-28%
EBIDTA	1109	1629	2038	2516	1050	1591	2461	2684	2176	107%	-19%
	45%	45%	44%	54%	43%	41%	46%	54%	57%	32%	5%
Depreciation	253	163	294	253	262	249	320	295	299	14%	1%
Other Income	56	59	219	99	147	237	237	197	621	321%	215%
PBIT	912	1525	1963	2362	935	1580	2378	2586	2498	167%	-3%
Interest	35	29	48	25	24	20	9				
PBT	877	1496	1914	2337	911	1560	2368	2586	2498	174%	-3%
Tax Expense	320	481	787	806	285	435	783	881	808	184%	-8%
PAT	557	1015	1127	1531	626	1124	1586	1705	1690	170%	-1%
EPS (₹)	1.8	3.2	3.6	4.8	2.0	3.5	5.0	5.4	5.3	170%	-1%

Source: Company, Sunidhi Research

**Recommendation and Change in Estimates**

At CMP of ₹205 stock is trading at an EV/EBIDTA of 5.0x FY14E EBIDTA. It has applied to central govt for increasing its capacity in two of its mines, Kutch and Bhavnagar. We believe such capacity addition holds significant potential for company's future growth. Along with capacity addition price hike for its lignite too holds the key. However stabilization of its power plant in near term would be key concern. We have reduced our FY14E lignite volume estimates by 0.2 mn tonnes to 14.95mnt incorporating management guidance. Considering above we expect GMDC to maintain a CAGR of 18% in sales for FY12-FY14E. We roll forward our valuation to FY14E and value GMDC at 5.5x (6x earlier) its FY14E EBIDTA and maintain our HOLD recommendation with revised target price of ₹224 from 205 earlier.

Exhibit 4: Change in Estimates

	FY13E			FY14E		
	Old	New	Change	Old	New	Change
Revenues	19480	19648	1%	23832	22556	-5%
Op. Expenses	9753	9406	-4%	11391	11004	-3%
EBITDA	9727	10241	5%	12441	11552	-7%
Other Income	750	750	0%	750	750	0%
Depreciation	1281	1281	0%	1361	1361	0%
EBIT	9196	9711	6%	11830	10942	-8%
Interest	78	0		78	0	
PBT	9118	9711	7%	11751	10942	-7%
Tax	2918	3107	7%	3760	3501	-7%
PAT	6200	6603	7%	7991	7440	-7%

Source: Company, Sunidhi Research

**Valuations Summary**

Year End-March	FY10	FY11	FY12	FY13E	FY14E
Per share (₹)					
EPS	8.9	11.8	15.3	20.8	23.4
CEPS	11.3	14.7	19.1	24.8	27.7
BVPS	44.2	52.5	64.3	85.1	108.5
DPS	2.5	3	3.5	4	4
Payout (%)	28%	25%	23%	19%	17%
Valuation (x)					
P/E	NA	17.4	13.4	9.9	8.8
P/BV	4.6	3.9	3.2	2.4	1.9
EV/EBITDA	14.3	10.0	8.3	6.1	5.0
Dividend Yield (%)	1%	1%	2%	2%	2%
Return ratio (%)					
EBIDTA Margin	48%	49%	52%	56%	55%
PAT Margin	26%	26%	31%	34%	33%
ROAE	21%	24%	27%	28%	24%
ROACE	23%	31%	34%	38%	34%
Leverage Ratios (x)					
Total D/E	0.2	0.1	0.0	0.0	0.0
Net Debt/Equity	0.1	0.1	0.0	-0.1	-0.2
Interest Coverage	16.3	39.6	94.2	N.A	N.A
Current ratio	1.3	1.2	1.5	1.7	2.1
Growth Ratios (%)					
Income growth	9%	33%	15%	20%	15%
EBITDA growth	1%	36%	22%	30%	12%
PAT growth	16%	36%	34%	32%	13%
Turnover Ratios					
F.A Turnover x	0.5	0.6	0.6	0.7	0.7
Inventory Days	24.8	17.6	14.6	18.3	18.3
Debtors Days	16.8	9.2	11.6	15.2	15.2

Income Statement(₹ mn)

Year End-March	FY10	FY11	FY12	FY13E	FY14E
Revenues	10652	14148	16307	19648	22556
Op. Expenses	6001	7561	8564	9406	11004
EBITDA	4651	6587	7743	10241	11552
Other Income	480	388	733	750	750
Depreciation	862	930	1083	1281	1361
EBIT	4269	6045	7392	9711	10942
Interest	261	153	78	0	0
PBT	4008	5893	7314	9711	10942
Tax	1262	2098	2309	3107	3501
PAT	2746	3748	5005	6603	7440

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

Year End-March	FY10	FY11	FY12	FY13E	FY14E
Sources of Funds					
Equity Share Capital	636	636	636	636	637
Reserves & Surplus	13420	16062	19821	26424	33864
Net Worth	14056	16698	20457	27060	34501
Loan Funds					
Deferred Tax Liability	2399	2537	2930	1312	621
Capital Employed	18615	20565	23388	28372	35122
Application of Funds					
Gross Block	19761	22362	25574	29074	32074
Less: Depreciation	6347	7188	7997	8321	9277
Net Block	13414	15174	17578	20754	22797
WIP	97	188	63	63	63
Net Fixed Assets	13512	15362	17641	20817	22860
Investments					
1326	1326	1326	1326	1326	1327
Current Assets					
Debtors	490	356	517	819	940
Inventory	725	680	654	982	1128
Cash	958	426	565	2239	7672
Others	12636	17840	11449	11500	11500
Current Liabilities					
Creditors	2014	3677	5305	5851	6845
Provisions	9198	11860	3459	3459	3459
Net Current Asset	3598	3764	4420	6230	10936
Misc Expenses	180	112	0	0	0
Total	18615	20565	23387	28373	35123

Cash flow Statement

Year End-March	FY10	FY11	FY12	FY13E	FY14E
PBT	4061	5846	7176	8537	10942
Depreciation	862	902	1061	1281	1361
Interest Exp	539	261	153	145	145
Others	-118	-123	-431	-750	-750
CF before W.cap	5018	6812	7958	9067	11552
Inc/dec in W.cap	1744	-1079	140	-135	727
Op CF after W.cap	6762	5733	8098	8932	12279
Less Taxes	-1206	-1846	-2477	-3107	-3197
Net CF From Operations	5556	3887	5621	5824	9082
Inc/(dec) in F.A + CWIP	-1354	-2751	-3335	-3500	-3000
(Pur)/sale of Investments	-740	-1	3	0	0
others	199	185	463	750	750
CF from Invst Activities	-1895	-2566	-2870	-2750	-2250
Loan Raised/(repaid)	-2625	-830	-1330	0	0
Int Paid	-539	-261	-171	-145	-145
Dividend	-743	-926	-1108	-1399	-1399
CF from Fin Activities	-3629	-1928	-2538	-1399	-1399
Net inc /(dec) in cash	11	-608	214	1675	5433
Op. bal of cash	946	958	350	564	2239
Cl. balance of cash	958	350	564	2239	7672



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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