

May 30, 2012
ACCUMULATE
MEDIUM RISK
PRICE Rs.179
TARGET Rs.214

MINING

EARLIER RECO

HOLD	
Price	Rs.189
Target	Rs.214
Date	Apr. 03, 2012

SHARE HOLDING (%)

Promoters	74.0
FII	6.8
FI	12.8
Body Corporates	0.8
Public & Others	5.6

STOCK DATA

Reuters Code	GMDC.BO	
Bloomberg Code	GMDC IN	
BSE Code	532181	
NSE Symbol	GMDCLTD	
Market Capitalization*	Rs. 56,922 mn	
Shares Outstanding*	US \$1,024 mn	
52 Weeks (H/L)	318 mn	
Avg. Daily Volume (6m)	Rs.213/139	
Price Performance (%)	62,993 Shares	
1M	3M	6M
(4)	(11)	1
200 Days EMA: Rs.174		
*On fully diluted equity shares		

 Part of  **Bonanza**


ANALYST

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GMDC has come out with impressive set of numbers for the quarter and for FY12. Q4FY12 Revenues increased by 15.6% YoY to Rs.5,370 mn mainly driven by higher lignite realizations and strong volume growth. EBITDA increased 20.6% YoY to Rs.2,494 mn and margins expanded by 193 bps to 46.44% mainly on account of lower employee costs, OBR costs and royalty. Supported by lower interests costs, higher other income and low tax rate, company's net profit grew by 40.8% YoY to Rs.1,586 mn with net margins at 29.54% vs. 24.26% (Q4FY11).

FY12 results were in line with our estimates. Revenues grew by 15.2% YoY to Rs.16,307 mn as against our estimates of Rs.16,140 mn. EBITDA increased by 16.6% YoY to Rs.7,679 mn marginally lower than our estimate of Rs.7,753 mn mainly on account of higher mine closure provision. Provisioning towards mine closure increased by 81% YoY to Rs.1,073 mn vis-à-vis our expectation of Rs.840 mn. PAT grew by 29.9% YoY to Rs.4,868 mn (vs. estimate of Rs.4,697 mn) driven by lower taxes, interest and higher other income. During the year, the company has repaid its entire debt of Rs.1,330 mn and has sufficient cash flows to support its future Capex. For FY13, the company has planned a Capex of Rs.3,050 mn for setting up an additional 1x50MW wind farm which will be funded through internal accruals.

Key Result Highlights

- Lignite production for Q4FY12 stood at ~3.886 mn tons vs. 3.237 mn tons in Q4FY11, an increase of 20% YoY driven by higher volumes from Tadkeshwar and Bhavnagar mines. Production at Tadkeshwar mines increased by 22.3% YoY and Bhavnagar mines grew by 144%. FY12 lignite production stood at 11.342 mn tons, an increase of 11% YoY.
- Blended lignite realizations increased by 13.2% YoY to Rs.1,200/ton vs. Rs.1,060/ton (FY11).
- Pure power loss barring other income in the power segment stood at Rs.340 mn for FY12 of which, wind power made profits of Rs.280 mn and thermal power division reported a loss of Rs.620 mn. The average PLF for thermal power stood at 35% which is likely to improve going forward given that the bellow problem has been resolved and last year the company went through a turbine shut down for maintenance purposes which also resulted in lower PLF. Average PLF for wind farms stood at 21%.
- The effect of bellow problem getting resolved can be observed in Q4FY12 results where the net power loss has narrowed to Rs.128 mn vis-à-vis a loss of Rs.280 mn in Q3FY12 when the bellow failure was at its peak coupled with maintenance shut down.

OUTLOOK & VALUATION

GMDC, the sole supplier of lignite in Gujarat, has come out with impressive results for Q4FY12 and FY12. The company is set to grow at a robust pace given the management's capability to ramp up production, ability to pass on increase in costs, no employee cost overhang and strong cash generation. The company has exceeded our volume growth expectations by ramping up their lignite production capacities at Tadkeshwar & Bhavnagar mines. We believe the company is well on track to reach their target production of 2.5 mn tons and 3 mn tons at these mines respectively. Despite of these strong facts, the stock is quoting at an attractive valuation with EV/EBITDA of 5.3x and P/E of 9.6x its FY14E EBITDA & EPS of Rs. 9,465 Mn and Rs. 18.6 respectively. Hence considering, healthy volume growth in a scarce environment and impressive pricing power we recommend 'ACCUMULATE' on the stock with a price target of Rs. 214.

KEY FINANCIALS

Y/E Mar.	Revenue (Rs mn)	PAT (Rs mn)	EPS (Rs)	EPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY11	14,147.9	3,747.6	11.8	33.9	15.2	33.0	24.4	3.4
FY12	16,307.0	4,868.3	15.3	29.9	11.7	34.3	26.2	2.8
FY13E	18,840.2	5,464.8	17.2	12.3	10.4	34.1	24.3	2.3
FY14E	20,225.4	5,916.6	18.6	8.3	9.6	31.1	22.4	2.0

QUARTERLY STATEMENT

Rs.mn

Y/E March	Q4FY11	Q3FY12	Q4FY12
Net Sales	4,645.9	3,842.8	5,369.6
(%) Chg YoY	34.3	6.6	15.6
OBR Cost	797.4	682.3	842.0
Mine Closure Expenses	121.3	176.9	490.3
Royalty & Cess	437.0	393.6	531.3
Power & Fuel	292.3	362.0	439.7
Personnel Cost	486.3	314.1	252.4
Other Costs	444.0	313.0	320.4
Total Expenditure	2,578.3	2,241.8	2,876.1
PBIDT	2,067.6	1,600.9	2,493.5
(%) Chg YoY	43.5	(2.3)	20.6
% OPM	44.5	41.7	46.4
Depreciation	294.1	248.6	319.8
Interest	48.3	20.0	9.4
Other Income	219.2	237.4	236.6
PBT incl OI	1,944.4	1,569.7	2,400.9
Tax	787.2	435.3	782.8
PAT	1,127.0	1,124.6	1,586.4
(%) Chg YoY	24.6	10.8	40.8
% NPM	24.3	29.3	29.5

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY11	FY12	FY13E	FY14E
Total Sales	14,147.9	16,307.0	18,840.2	20,225.4
OBR Cost	2,223.0	2,628.5	3,354.3	3,507.9
Mine Closure Expenses	592.7	1,073.4	1,169.3	1,423.2
Royalty & Cess	1,188.4	1,477.8	1,482.1	1,518.9
Power & Fuel	897.5	1,186.5	1,186.9	1,254.0
COGS	5,565.2	7,031.6	8,005.1	8,535.7
Personnel Cost	1,515.9	1,081.3	1,413.0	1,577.6
SG&A Cost	480.0	514.7	621.7	647.2
EBITDA	6,586.8	7,679.3	8,800.3	9,464.8
Depreciation	929.6	1,083.3	1,151.8	1,224.3
Interest	152.8	78.5	-	-
Other Income	361.7	733.8	657.5	751.9
EBT (as reported)	5,846.1	7,177.2	8,280.0	8,964.5
Tax	2,098.5	2,308.9	2,815.2	3,047.9
RPAT	3,747.6	4,868.3	5,464.8	5,916.6

BALANCE SHEET STATEMENT

Rs.mn

As on 31 st March	FY11	FY12E	FY13E	FY14E
Equity Share Capital	636.0	636.0	636.0	636.0
Reserves	16,061.7	19,821.3	23,797.9	27,854.3
Net worth	16,697.7	20,457.3	24,433.9	28,490.3
Total loans	1,330.2	-	-	-
Deferred tax liability	2,536.8	2,930.4	3,344.4	3,792.6
Capital Employed	20,564.7	23,387.7	27,778.3	32,282.9
Fixed Assets	15,362.1	17,640.8	19,738.9	18,714.7
Investments	1,326.1	1,326.6	1,326.6	1,326.6
Inventories	680.5	639.2	643.1	641.7
Sundry debtors	355.7	516.7	619.4	692.7
Cash and bank	425.8	512.0	2,185.7	6,682.3
Loans and advances	17,839.6	21,087.0	25,637.1	30,860.9
Current assets	19,301.5	22,755.0	29,085.3	38,877.5
Current liabilities	15,537.5	18,334.6	22,372.5	26,635.9
Net Current assets	3,764.0	4,420.3	6,712.8	12,241.6
Capital Deployed	20,564.7	23,387.7	27,778.3	32,282.9

FINANCIAL RATIO STATEMENT

Y/E March	FY11	FY12	FY13E	FY14E
Growth (%)				
Net Sales	32.9	15.3	15.5	7.4
EBITDA	38.6	16.6	14.6	7.6
APAT	33.9	29.9	12.3	8.3
Profitability (%)				
EBITDA Margin	46.6	47.1	46.7	46.8
Adj. PAT Margin	26.5	29.9	29.0	29.3
ROCE	33.0	34.3	34.1	31.1
ROE	24.4	26.2	24.3	22.4
Per Share Data (Rs.)				
Adj. EPS	11.8	15.3	17.2	18.6
Adj. CEPS	15.1	20.0	22.1	23.9
BVPS	52.5	64.3	76.8	89.6
Valuations (X)				
PER	15.2	11.7	10.4	9.6
P/BV	3.4	2.8	2.3	2.0
EV / EBITDA	8.7	7.3	6.2	5.3
EV / Net sales	4.1	3.4	2.9	2.5
Gearing Ratio				
D/E	0.1	-	-	-

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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