

FEBRUARY 06, 2013
BUY
MEDIUM RISK
PRICE Rs.190
TARGET Rs.249

MINING

EARLIER RECO

BUY	
Price	Rs.205
Target	Rs.249
Date	Oct. 18, 2012

SHARE HOLDING (%)

Promoters	74.0
FII	6.5
MF & FI	13.2
Body Corporates	1.0
Public & Others	5.3

STOCK DATA

Reuters Code	GMDC.BO	
Bloomberg Code	GMDC IN	
BSE Code	532181	
NSE Symbol	GMDC.LTD	
Market Capitalization*	Rs. 60,277 mn	
	US \$ 1,131 mn	
Shares Outstanding*	318 mn	
52 Weeks (H/L)	Rs.222/158	
Avg. Daily Volume (6m)	204,729 Shares	
Price Performance (%)		
1M	3M	6M
(7)	(11)	(1)

200 Days EMA: Rs.196
***On fully diluted equity shares**

 Part of  **Bonanza**


ANALYST

Bharti Gupta | +91 22 4093 5069
bharti.gupta@sushilfinance.com

SALES

Devang Shah | +91 22 4093 6060/61
devang.shah@sushilfinance.com

We organized the Q3FY13 results conference call of the company represented by Mr. A. L. Thakor (GM Lignite, Sales, Planning, R&D), Mr. Pawan Bhootra (GM Accounts) and Mr. D. Chattopadhyay (GM Power). The following are the key highlights of the call:

- Q3FY13 Revenues de-grew 8% YoY at Rs.3,534 mn led by 15% decline in mining revenues off-set by more than 100% growth in Power revenues.
- GMDC witnessed de-growth in lignite volumes at 2.48 mn tons vs. 2.78 mn tons in Q3FY12, led by delayed monsoons and low demand from the bricks & ceramics industry due to pending MoEF clearances. The bricks & ceramics industry has now received the requisite MoEF clearances and demand for lignite is back to normal. Despite of dismal performance in Q3FY13, the management is confident to achieve lignite output in excess of 4 mn tons in Q4FY13. Considering 9MFY13 Lignite output, we have lowered our FY13E volumes to 11.8 mn ton. However; we have upward revised our FY14E volumes to 13.2 (12.7) mn tons (management guidance 14.2 mn tons) given that the company received the long pending approval for Umarsar mines which has a reserve base of ~21 mn tons with an annual capacity of 1 mn ton. It expects to start mining operations by April 2013 end.
- The Thermal Power plant turnaround in Q3FY13 with a marginal profit of ~10 mn led by improvement in average PLF at 60% (considering auxiliary consumption) vs. 56% in Q2FY13. Wind & solar division reported loss of ~Rs.30 mn led by seasonality factors; resulting in a net power loss of ~Rs.22 mn. The company is likely to commission its 5th wind power plant with capacity of 50 MW by end of Q4FY13E.
- KEPCO took over the entire O&M operations of the thermal power plant w.e.f. 1st February 2013 for an annual fixed charge of Rs.330 mn (Incl. taxes) (vs. current ~Rs.480 mn being spent as fixed O&M charges) and has guaranteed an annual PLF of 75%.
- EBITDA grew by 10% YoY to Rs.1,760 mn with margin improvement of 821 bps to 49.8% (41.6%). Margin improvement was largely driven by turnaround of the thermal division. During the quarter, the company made a one-time provision of ~Rs.204 mn towards de-allocation of Naini coal block. Adjusted PAT grew by 12% at Rs.1,260 mn with margins of 35.7% (29.3%).
- The company has revised its earlier capex guidance to Rs.7,550 mn (Rs.5,550 mn) to be incurred on setting up wind farm with a capacity of 50 MW (Rs.3,050 mn) to be commissioned by Q4FY13E and land acquisition for future mining projects & Nalco JV. For FY14, the company has guided for a capex of Rs.5,550 mn for setting up an additional 50 MW wind farm taking its total wind capacity to 200MW and land acquisition.

OUTLOOK & VALUATION

GMDC has reported decent numbers for Q3FY13. Amidst low volume off-take in the quarter, we are downward revising our earnings estimate for FY13E by 8%. However; we have upward revised our FY14E earnings by 4.3% post factoring in 0.5 mn output from Umarsar mine at a realization of Rs.1,200/ton as against management guidance of over Rs.1,400/ton. We continue to recommend BUY on the stock as we believe the huge discounting (~36% on EV/EBITDA) to coal India is highly unwarranted given that the company has a good pipeline of mine additions which will significantly add volumes in the subsequent years coupled with likely commencement of Alumina JV with Nalco which will significantly add value to the company's core business. Thus, based on consistent volume growth, strong pricing power, robust cash generation (Rs.9551 mn in FY14E), healthy return ratios and likely improvement in the power business we maintain 'BUY' on the stock with a price target of Rs.249.

KEY FINANCIALS

Y/E	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	REPS (Rs)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
Mar.									
FY11	14,147.9	3,747.6	11.8	33.9	11.8	16.1	33.0	24.4	3.6
FY12	16,307.0	4,868.3	15.3	29.9	15.3	12.4	34.6	26.2	2.9
FY13E*	18,074.5	5,764.1	18.1	18.4	19.6	10.5	35.5	25.2	2.4
FY14E	22,373.3	7,682.2	24.2	33.3	24.2	7.8	35.3	27.3	1.9

***Factoring Arrears pertaining to Panandhro price Hike**

QUARTERLY STATEMENT

Rs.mn

Y/E March	Q3FY12	Q2FY13	Q3FY13
Net Sales	3,839.6	3,822.2	3,533.7
(%) Chg YoY	6.5	56.6	(8.0)
OBR Cost	682.3	553.8	614.7
Mine Closure Expenses	176.9	97.2	165.3
Royalty & Cess	393.6	278.6	310.2
Power & Fuel	362.0	191.4	192.9
Personnel Cost	314.1	286.6	287.3
Other Costs	313.4	240.6	203.1
Total Expenditure	2,242.3	1,648.2	1,773.6
PBIDT	1,597.3	2,174.1	1,760.1
% OPM	41.6	56.9	49.8
Depreciation	248.6	299.2	296.0
Interest	20.0	-	-
Other Income	237.4	621.2	396.8
PBT incl OI	1,559.9	2,496.0	1,657.5
Tax	435.3	807.9	535.2
RPAT	1,124.6	1,688.2	1,122.3
(%) Chg YoY	10.8	169.6	(0.2)
% NPM	29.3	44.2	31.8
APAT	1,124.6	1,228.3	1,260.1
% NPM	29.3	36.0	35.7

BALANCE SHEET STATEMENT

Rs.mn

As on 31 st March	FY11	FY12	FY13E	FY14E
Equity Share Capital	636.0	636.0	636.0	636.0
Reserves	16,061.7	19,821.3	24,566.9	30,475.0
Net worth	16,697.7	20,457.3	25,202.9	31,111.0
Total loans	1,330.2	-	-	-
Deferred tax liability	2,536.8	2,930.4	2,837.5	2,722.9
Capital Employed	20,564.7	23,387.7	28,040.4	33,833.9
Fixed Assets	15,362.1	17,640.8	19,940.6	25,876.6
Investments	1,326.1	1,326.6	3,676.6	4,126.6
Inventories	680.5	654.0	660.8	746.8
Sundry debtors	355.7	516.7	594.2	735.6
Cash and bank	425.8	564.4	585.0	561.6
Loans and advances	17,839.6	23,007.3	27,096.8	32,199.4
Current assets	19,301.5	24,742.4	28,936.8	34,243.4
Current Liab. & Prov.	15,537.5	20,322.1	24,513.6	30,412.7
Net Current assets	3,764.0	4,420.3	4,423.2	3,830.7
Capital Deployed	20,564.7	23,387.7	28,040.4	33,833.9

Source : Company, Sushil Finance Research Estimates

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY11	FY12	FY13E	FY14E
Total Sales	14,147.9	16,307.0	18,074.5	22,373.3
OBR Cost	2,223.0	2,628.6	3,147.5	4,447.6
Mine Closure Expenses	592.7	1,073.4	668.0	783.7
Royalty & Cess	1,188.4	1,486.3	1,456.3	1,712.0
Power & Fuel	897.5	1,134.0	994.1	1,230.5
COGS	5,565.2	6,922.9	6,959.2	9,027.6
Personnel Cost	1,515.9	1,081.3	1,156.8	1,297.7
SG&A Cost	480.0	560.1	596.5	704.8
EBITDA	6,586.8	7,742.7	9,362.1	11,343.3
Depreciation	929.6	1,083.3	1,250.2	1,414.0
Interest	152.8	78.5	-	-
Other Income	361.7	682.1	1,381.2	1,536.8
EBT (as reported)	5,846.1	7,177.2	9,289.5	11,466.0
Tax	2,098.5	2,308.9	3,065.5	3,783.8
RPAT	3,747.6	4,868.3	6,224.0	7,682.2
APAT	3,747.6	4,868.3	5,764.1	7,682.2

FINANCIAL RATIO STATEMENT

Y/E March	FY11	FY12	FY13E	FY14E
Growth (%)				
Net Sales	32.9	15.3	10.8	23.8
EBITDA	38.6	17.5	20.9	21.2
APAT	33.9	29.9	18.4	33.3
Profitability (%)				
EBITDA Margin	46.6	47.5	51.8	50.7
Adj. PAT Margin	26.5	29.9	31.9	34.3
ROCE	33.0	34.6	35.5	35.3
ROE	24.4	26.2	25.2	27.3
Per Share Data (Rs.)				
Reported EPS	11.8	15.3	19.6	24.2
Adj. EPS	11.8	15.3	18.1	24.2
Adj. CEPS	15.1	20.0	23.2	28.2
BVPS	52.5	64.3	79.3	97.8
Valuations (X)				
PER	16.1	12.4	10.5	7.8
P/BV	3.6	2.9	2.4	1.9
EV / EBITDA	8.8	7.0	5.7	4.7
EV / Net sales	4.1	3.3	3.0	2.4
Gearing Ratio				
D/E	0.1	-	-	-

CASH FLOW STATEMENT

(Rs.mn)

Y/E March	FY11	FY12	FY13E	FY14E
Profit Before Tax & Extraordinary Items	5,819.7	7,126.4	9,493.0	11,466.0
Depreciation	841.5	808.5	1,250.2	1,414.0
Chg. in Deferred Tax Liability	138.2	393.6	(92.9)	(114.7)
Chg. in Working Cap.	(698.3)	(517.6)	17.7	569.1
Cash Flow from Operating	4,078.8	5,650.6	7,399.0	9,550.7
Chg. in Gross PP&E	(2,601.1)	(3,212.4)	(3,550.0)	(7,350.0)
Chg. In Work in Prog.	(90.9)	125.2	0.0	(0.0)
Chg. In Investments	(0.5)	(0.5)	(2,350.0)	(450.0)
Cash Flow from Investing	(2,692.5)	(3,087.8)	(5,900.0)	(7,800.0)
Chg. in Debt	(830.5)	(1,330.2)	-	-
Dividend	(1,108.8)	(1,108.8)	(1,478.4)	(1,774.1)
Cash Flow from Financing	(1,918.3)	(2,424.2)	(1,478.4)	(1,774.1)
Cash at the End of Year	425.7	564.4	585.0	561.6

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	NotApplicable

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.
- **Stock Review Reports:** These are Soft coverage's on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage's with an occasional Update, wherever possible.

Additional information with respect to any securities referred to herein will be available upon request.

This report is prepared for the exclusive use of Sushil Group clients only and should not be reproduced, re-circulated, published in any media, website or otherwise, in any form or manner, in part or as a whole, without the express consent in writing of Sushil Financial Services Private Limited. Any unauthorized use, disclosure or public dissemination of information contained herein is prohibited. This report is to be used only by the original recipient to whom it is sent.

This is for private circulation only and the said document does not constitute an offer to buy or sell any securities mentioned herein. While utmost care has been taken in preparing the above, we claim no responsibility for its accuracy. We shall not be liable for any direct or indirect losses arising from the use thereof and the investors are requested to use the information contained herein at their own risk.

This report has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. The information, on which the report is based, has been obtained from sources, which we believe to be reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. All expressions of opinion are subject to change without notice.

Sushil Financial Services Private Limited and its connected companies, and their respective directors, officers and employees (to be collectively known as SFSPL), may, from time to time, have a long or short position in the securities mentioned and may sell or buy such securities. SFSPL may act upon or make use of information contained herein prior to the publication thereof.