GUJARAT MINERAL DEVELOPMENT CORPORATION LTD.

Q4 FY 2008 update HOLD

Sector Mining & Power | CMP Rs 293

STOCK DATA

Market Cap	Rs46bn.
Book Value per share	Rs52.8
Eq Shares O/S (F.V. Rs.2)	159mn.
Median Vol (12 mths)	140,236 (BSE+NSE)
52 Week High/Low	Rs615 /140
Bloomberg Code	GMDC.IN
Reuters Code	GMDC.BO

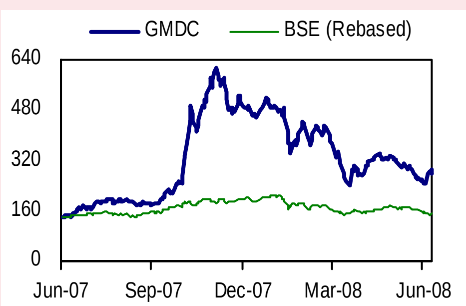
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	74.0	74.0	74.0
MFs/FIs	13.1	10.2	11.7
FIIs	1.3	2.1	1.8
PCBs	6.4	6.1	5.0
Indian Public	5.2	7.6	7.5

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(4.0)	(17.0)	106.3
Relative	6.8	(11.6)	92.4

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

GMDC Ltd's (GMDC) net sales were in line with expectations as they rose by 70% YoY to Rs3.2bn driven by higher volumes and realisations. However, OPM shrank by 1,000bps to 52.6% as a result of higher extraction costs.

- **Higher volumes and realisations boost performance**

GMDC's lignite volumes grew by ~40% YoY to ~3mn mt and average realisations were higher by ~7% at Rs885/mt. As a result, mining segment revenues rose by 51% to Rs2.9bn.

- **Power project back on track**

The power project operated at stable levels after maintenance shutdowns in the last nine months and generated revenues of Rs509mn. While the power segment reported a profit of Rs106mn, it included ~Rs89mn as write back of depreciation.

- **Ramping up new mines**

GMDC is developing new mines to lower the burden on its mainstay Panandhro mine at Kutch (Gujarat). These should commence contributing to revenues substantially over the next 10-12 months. However, the gestation in ramping up the new mines will impact production in FY09.

- **Lignite volumes to fall 22% in FY09, rise 14% in FY10**

Due to the gestation in ramping up, we estimate net saleable lignite volumes to decline by 22% in FY09 to 7.2mn mt. These should increase by 14% in FY10 to 8.2mn mt.

VALUATIONS AND RECOMMENDATION

The CMP of Rs293 discounts FY10E EPS of Rs19.9 by 14.8x and trades at an EV/EBIDTA of 8.7x. Being a monopoly player in the lignite sector, GMDC should capitalise on the buoyant demand for the same despite the delays in achieving scale in new mines. In light of the uncertainty over the level of ramp up in production, we maintain a 'HOLD' recommendation. Immediate upside triggers to our recommendation would be an increase in lignite volumes and possible price hikes.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (March)				
	Sep-07	Dec-07	Mar-08	2006	2007	2008	2009E	2010E
Net Sales	1,811	2,572	3,224	4,362	5,890	9,807	9,845	11,007
YoY Gr. (%)	*57.8*	*93.7*	*69.9*	*18.2*	*35.0*	*66.5*	*0.4*	*11.8*
Op. Profits	955	1,483	1,697	1,706	2,953	5,488	5,046	5,622
Op. Marg. (%)	*52.7*	*57.6*	*52.6*	*39.1*	*50.1*	*56.0*	*51.3*	*51.1*
Net Profits	418	933	637	417	1,087	2,639	2,685	3,156
Eq Capital	318	318	318	318	318	318	636	636

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
Dil. EPS (Rs)	2.6	6.8	16.6	16.9	19.9
ROCE (%)	6.4	13.2	25.8	22.2	23.6
RONW (%)	5.4	13.4	27.7	23.0	22.7
P/E (x)	110.1	42.3	17.4	17.1	14.6
EV/Sales (x)	13.0	9.5	5.2	5.4	4.7
EV/EBDIT (x)	22.4	14.5	9.0	9.8	8.6

PERFORMANCE OVERVIEW

Higher lignite volumes and realisations boost performance…

GMDC's Q4FY08 results were below expectations, being impacted by higher extraction costs. Also, write off of mine development expenses of Rs300mn adversely affected net profits. Net sales were in line with 70% YoY growth to Rs3.2bn. OPM contracted by 1,000bps to 52.6% while PBT rose by 94% to Rs1.7bn. Depreciation charges were negative as the company shifted from charging depreciation on its power project at a lower as per Companies Act vis-a-vis its PPA previously.

Shifting production to new mines

The company is cutting back on production at its main Panandhro mine to extend its life to cater to the requirements of Kutch Thermal Power Plant (KTPS) and its captive 250MW unit. The cutback is expected to be taken up by mines at Mata-no-Madh, Tadkeshwar, Rajpardi and Bhavnagar. These are relatively new mines with production below 1mn mt annually. Thus, ramping up these mines will involve a gestation period of 4-6 months. Further, to boost volumes, the company also expects to commission new mines at Umarsar, Lakhpat over the next couple of years. Due to the same, we expect total saleable volumes to decline by 22% in FY09 to 7.2mn mt and increase by 12.3% in FY10 to 8.2mn mt.

Mine-wise reserves and production (mn mt)

Mine		Production		
	Reserves	FY08	FY09E	FY10E
Panandhro	16	5.8	1.8	1.9
Mata-no-Madh	35	0.8	1.5	1.8
Rajpardi	20	0.4	1.5	1.7
Tadkeshwar	35	1.1	1.5	1.7
Bhavnagar	65	-	0.9	1.2
Total saleable	**171**	**8.1**	**7.2**	**8.2**
Captive consumption		0.9	1.2	1.2
Total production		**9.0**	**8.4**	**9.4**

Source: GMDC, PINC Research

Losing out on higher realisations

The shift in production implies that even though average realisations will increase owing to the dominant contribution of Panandhro to revenues, higher overburden ratios at the other mines will impact margins. Thus, while ex-Panandhro realisations were Rs1,050/mt, those at Mata-no-Madh are Rs700/mt. Further, recent issues over rising fuel costs and the government's decision not to increase coal prices in FY09 will prevent GMDC from effecting any hikes in prices.

OUTLOOK

While the gestation in ramping up production at the new mines will impact volumes and revenues, GMDC will remain as the sole supplier of lignite in Gujarat with coal as the only other alternative. We expect net sales to remain stagnant in FY09 at Rs9.8bn and grow by 12% in FY10 to Rs11bn. OPM is expected to contract by 471bps to 51.3% as a result of the higher overburden expenses and should remain stable in FY10. Net profits should be stagnant at Rs2.7bn in FY09 and grow by 18% in FY10 to Rs3.2bn.

VALUATIONS

The CMP of Rs293 discounts FY10E EPS of Rs19.9 by 14.8x and the stock trades at an EV/EBIDTA of 8.8x. Its monopolistic position and possibility of price hikes should enable it to improve profitability. Thus, we recommend a 'HOLD' and will revise the same following clarity on volume ramp up, pricing and commissioning of new mines.

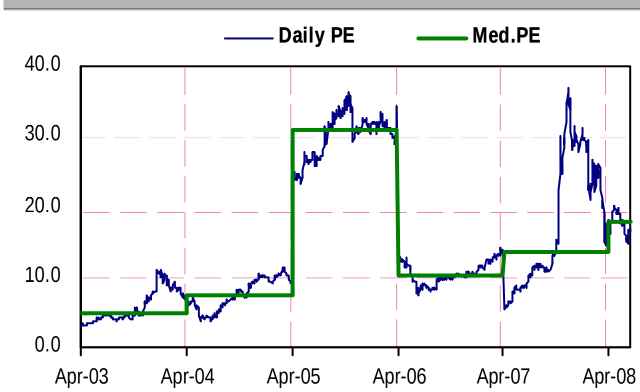
Company description

Gujarat Mineral Development Corporation Ltd (GMDC) is a 74% subsidiary of the Government of Gujarat with interests in lignite mining. It has a 250MW power plant and has recently acquired rights for coal mines.

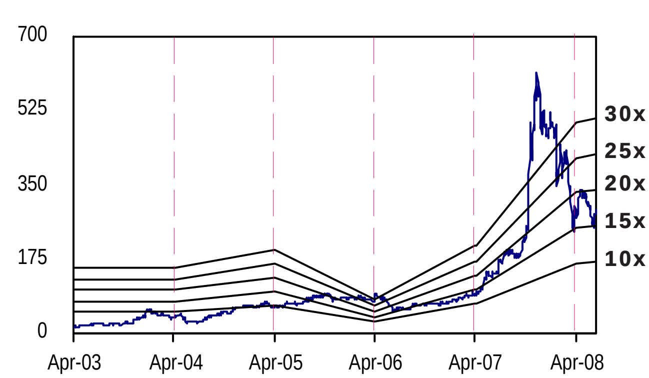
Financial Results for the quarter & year ended 31 March 2008

Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
Net Sales	**3,224**	**1,898**	**69.9**	**9,807**	**5,890**	**66.5**
Total Expenditure	**1,527**	**706**	**116.4**	**4,318**	**2,937**	**47.1**
(Inc.)/Dec.in stock-in-trade	(60)	(14)		(115)	(8)	
Consumption of stores and materials	144	58	145.9	430	305	41.1
Staff Cost	142	191	(25.8)	692	582	18.9
Overburden removal exp	460	236	94.8	1,150	583	97.1
Royalty	217	116	87.4	623	407	53.3
Other expenditure	624	118	429.7	1,538	1,068	44.0
Operating profit	**1,697**	**1,193**	**42.3**	**5,488**	**2,953**	**85.8**
Other Income	144	179	(19.8)	576	349	65.3
PBIDT	**1,841**	**1,372**	**34.2**	**6,064**	**3,302**	**83.7**
Interest	207	169	22.5	702	737	(4.7)
Depreciation	(40)	341	(111.6)	955	1,293	(26.1)
PBT	**1,674**	**862**	**94.1**	**4,407**	**1,271**	**246.6**
Extraordinary expenses	300	126		323	147	
Extraordinary income	12	26		-	554	
Prior period provisioning for tax	-	142		-	-	
Provision for tax	473	(101)		1,051	4	
Provision for deferred tax	277	593		393	587	
Net Profit	**637**	**128**	**396.2**	**2,639**	**1,087**	**142.9**
Equity Capital (FV Rs2)	318	318		318	318	
Reserves (excl. rev. res.)	-	-		-	-	
EPS for the period (Rs)	**4.0**	**0.8**		**16.6**	**6.8**	
OPM (%)	**52.6**	**62.8**		**56.0**	**50.1**	
NPM (%)	19.7	6.8		26.9	18.5	
Expend. (% of net sales)						
Stores and Materials	2.6	2.3		3.2	5.0	
Staff Cost	4.4	10.1		7.1	9.9	
Overburden removal exp	14.3	12.5		11.7	9.9	
Royalty	6.7	6.1		6.4	6.9	
Other expenditure	19.4	6.2		15.7	18.1	

Median PE v/s Daily PE



PE Band



Segmentwise Results for the quarter & year ended 31 March 2008						
Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
Segment Revenue						
Mining	2,925	1,939	50.9	8,553	5,337	60.3
Power (Akri Mota)	509	94	443.4	1,615	1,225	31.8
Unallocable	146	86	69.8	386	238	62.5
Total	**3,580**	**2,118**	**69.0**	**10,555**	**6,800**	**55.2**
Segment Results						
Mining	1,514	1,261	20.1	4,917	3,055	61.0
Power (Akri Mota)	106	(346)	(130.7)	(164)	(710)	(77.0)
Unallocable	(114.2)	(63.2)	-	(293)	(167)	-
Total PBIT	**1,506**	**851**	**76.9**	**4,460**	**2,177**	**104.8**
Less: Net Interest	120	89		376	500	
PBT	**1,386**	**762**	**81.8**	**4,084**	**1,678**	**143.4**
Capital Employed						
Mining	1,286	1,912		1,286	1,912	
Power (Akri Mota)	5,983	3,192		5,983	3,192	
Unallocable	4,258	3,978		4,258	3,978	
Total	**11,527**	**9,081**	**26.9**	**11,527**	**9,081**	**26.9**
ROCE (%)						
Mining	470.8	263.8		382.4	159.8	
Power (Akri Mota)	7.1	(43.4)		(2.7)	(22.3)	
Total	**52.2**	**37.5**		**38.7**	**24.0**	
PBIT Margins (%)						
Mining	51.8	65.0		57.5	57.2	
Power (Akri Mota)	20.9	(369.6)		(10.1)	(58.0)	
Total	**42.1**	**40.2**		**42.3**	**32.0**	
Sales mix (%)						
Mining	81.7	91.5		81.0	78.5	
Power (Akri Mota)	14.2	4.4		15.3	18.0	
Unallocable	4.1	4.1		3.7	3.5	
PBIT mix (%)						
Mining	100.5	148.1		110.2	140.3	
Power (Akri Mota)	7.1	(40.7)		(3.7)	(32.6)	
Unallocable	(7.6)	(7.4)		(6.6)	(7.7)	

Year Ended March (Figures in Rs mn)

Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	**3,692**	**4,362**	**5,918**	**9,807**	**9,845**	**11,007**
Growth (%)	*35.3*	*18.2*	*35.7*	*65.7*	*0.4*	*11.8*
Total Expenditure	**1,771**	**2,657**	**2,403**	**4,318**	**4,799**	**5,385**
Operating Profit	**1,921**	**1,706**	**3,515**	**5,488**	**5,046**	**5,622**
Growth (%)	*62.0*	*(11.2)*	*106.1*	*56.1*	*(8.1)*	*11.4*
Interest & dividend income	97	819	340	576	370	367
EBIDT	**2,018**	**2,524**	**3,855**	**6,065**	**5,416**	**5,988**
(-) Interest	1	505	737	702	584	494
(-) Depreciation	76	1,303	1,293	955	937	937
PBT & extraordinary items	**1,941**	**716**	**1,825**	**4,407**	**3,895**	**4,558**
(-) Tax provision & others	907	299	738	1,767	1,209	1,402
Net Profits	**1,034**	**417**	**1,087**	**2,639**	**2,685**	**3,156**
Fully diluted Eq. sh. O/s (mn no)	159.0	159.0	159.0	159.0	159.0	159.0
Book Value (Rs)	48.3	49.1	52.8	67.1	79.6	95.0
Basic EPS (Rs)	32.5	13.1	34.2	16.6	16.9	19.9
Diluted EPS (Rs)	**6.5**	**2.6**	**6.8**	**16.6**	**16.9**	**19.9**

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
Equity Share Capital	318	318	318	318	636	636
Reserves & Surplus	7,362	7,497	8,069	10,356	12,019	14,471
Net worth	**7,680**	**7,815**	**8,387**	**10,674**	**12,655**	**15,107**
Total Debt	11,146	10,837	9,598	8,360	6,920	5,480
Deferred Tax liability	252	1,072	1,800	1,810	1,820	1,830
Capital Employed	**19,078**	**19,723**	**19,786**	**20,845**	**21,396**	**22,417**
Fixed Assets	14,228	14,101	14,043	13,587	15,051	16,114
Net current assets	3,824	4,536	4,774	6,357	5,444	5,403
Investments	717	716	614	900	900	900
Misc exp.	308	370	355	-	-	-
Total Assets	**19,078**	**19,723**	**19,786**	**20,845**	**21,396**	**22,417**

Year Ended March (Figures in Rs mn)

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & Extraord. items	**1,681**	**716**	**1,678**	**4,407**	**3,895**	**4,558**
Depreciation & other adj.	80	1,303	740	955	937	937
Interest & dividend inc.	31	(11)	(220)	(576)	(370)	(367)
Interest paid	(81)	304	737	702	584	494
Misc Exp W/off	91	2	9	-	-	-
Tax paid	(437)	(275)	(203)	(1,445)	(1,209)	(1,402)
(Inc/Dec in working capital	(1,487)	(239)	(296)	(1,545)	913	42
Cash from operations	**(122)**	**1,801**	**2,444**	**2,498**	**4,749**	**4,262**
Net capital expenditure	(3,006)	(1,323)	(397)	(500)	(2,400)	(2,000)
Net investments	11	142	102	(287)	-	-
Interest recd	28	24	58	576	370	367
Cash from investing activities	**(2,968)**	**(1,157)**	**(237)**	**(210)**	**(2,030)**	**(1,633)**
Issue of eq. shares	-	-	-	-	-	-
Change in debt	3,255	(310)	(1,238)	(1,228)	(1,430)	(1,430)
Dividend paid	(143)	(181)	(218)	(352)	(705)	(705)
Interest paid	(2)	(318)	(576)	(702)	(584)	(494)
Cash from financing activities	**3,110**	**(809)**	**(2,033)**	**(2,283)**	**(2,719)**	**(2,628)**
Inc/Dec. in cash	**20**	**(165)**	**174**	**5**	**-**	**-**

Key Ratios	2005	2006	2007	2008E	2009E	2010E
OPM (%)	52.0	39.1	59.4	56.0	51.3	51.1
ROACE (%)	19.9	6.4	13.2	25.8	22.2	23.6
ROANW (%)	14.3	5.4	13.4	27.7	23.0	22.7
Sales/Total Assets (x)	0.3	0.2	0.3	0.5	0.5	0.5
Debt:Equity (x)	1.5	1.5	1.4	1.0	0.7	0.5
Current Ratio (x)	2.7	3.2	1.7	3.1	2.5	2.4
Debtors (days)	54.0	54.1	56.8	54.0	54.0	54.0
Inventory (days)	95.5	74.4	44.0	64.8	64.8	64.8
Net working capital (days)	372.9	374.4	290.4	216.8	199.1	176.7
EV/Sales (x)	15.1	13.0	9.5	5.2	5.4	4.7
EV/EBIDT (x)	27.7	22.4	14.5	9.0	9.8	8.6
P/E (x)	44.4	110.1	42.3	17.4	17.1	14.6
P/BV (x)	6.0	5.9	5.5	4.3	3.6	3.0

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