

Reduced Tax Incidence: Igniting Lignite Demand

The company reported an impressive performance in Q3FY18, wherein top line grew by 33.1%, while bottom line grew at 68.8% on YoY basis. Good showing has been an outcome of lignite becoming price competitive to coal following fixation of GST rate of 5% for lignite and other minerals. Higher realization in lignite business led EBITDA and PAT margin to improve by 856 and 328 bps respectively on YoY basis. EPS too, registered a growth of 69.2% on YoY basis. Going forward factors like, sound financial, vast array of mineral products, several upcoming mines and power projects; and up trending commodities' prices brighten the prospect for mining and power business which makes stock clear value buying. We rate "BUY" on stock with TP of Rs. 170, which gives 24% potential upside.

Upcoming Projects to Boost Sales Performance: GMDC has 6 operational lignite mines. The Ministry of Coal has allotted 3 lignite blocks, whereas 2 lignite blocks have been kept reserved for the company. Collectively these 3 mines have estimated 34 Mn tons of lignite reserves. Apart from lignite, the company is also into bauxite, fluorspar, manganese, silica sand, limestone and betonies mining. The company is in process of setting up of Fluorspar Benefication Plant of 40000 TPA capacity and plant for Zeolite and other value added products. GMDC will supply 120000 TPA NPG Bauxite to M/S Credo Mineral Industries Ltd. The company is also in process of setting up a Silica Sans Benefication Plant of 150000 TPA capacity and Lignite based 500 MW Power Plant.

Valuation and Risks

Strengthening of commodities' prices in general and likely increased demand for power, following implementation of schemes like, UDAY, Deen Dayal Yojana and Saubhagya augur very well for the company. Furthermore, the company enjoyed robust financials in FY17 with zero debt, EBITDA margin of 26.4%, PAT margin of 20.5%, BV/share of Rs.126 and cash & cash equivalent of Rs. 500 Mn make this stock value buy. While introducing FY20E, we have valued stock on 1yr forward PE 8x of FY20E EPS, which is inching towards MSCI Energy India Index average PE of 8.9 with TP of Rs. 170 with potential upside of 24% for the next 9-12 months. However, likely auctioning of coal mines for commercial use is a risk.

Exhibit 1: Valuation Summary

YE Mar - Consolidated (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	12153	15824	19973	24592	29289
EBITDA	2888	4174	5608	7097	8623
EBITDA Margin (%)	23.8	26.4	28.1	28.9	29.4
Net Profit	2190	3241	4433	5601	6790
EPS (Rs.)	6.9	10.2	13.9	17.6	21.4
RoE (%)	6.0	8.4	10.6	12.2	13.3
PE (x)	9.2	12.0	9.8	7.8	6.4

Source: Company, Karvy Research. *Represents multiples for FY16 & FY17 are based on historic market price

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Recommendation (Rs.)

CMP (as on Feb 27, 2018)	137
Target Price	170
Previous Target Price	185
Upside (%)	24

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	43566 / 672
52-wk High/Low (Rs.)	181 / 112
3M Avg. daily volume (mn)	0.4
Beta (x)	1.0
Sensex/Nifty	34346 / 10554
O/S Shares(mn)	318.0
Face Value (Rs.)	2.0

Shareholding Pattern (%)

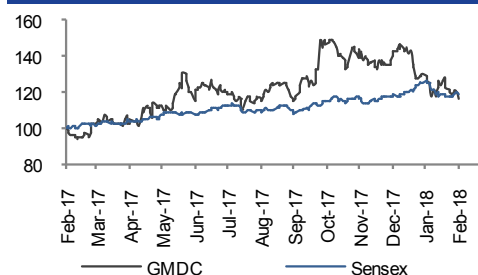
Promoters	74.0
FII	4.26
DII	11.1
Others	10.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(10)	(16)	(2)	16
Relative to Sensex	(6)	(17)	(10)	(3)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↓ (2.9)	↓ (4.4)
EBITDA (%)	↑ 0.7	↓ (0.9)
PAT (%)	↑ 3.8	↑ 0.8

Source: Karvy Research

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9MFY18 Performance:

The company continued with a strong showing during 9M ended Dec 31, 2017, wherein revenue from sales grew by 38.2% on the back of higher volume and value sales of lignite. The greater realization in lignite sales helped EBITDA margin improve by 286 bps. Improved EBITDA margin and lower tax incidence helped EPS to grow by 42.7%.

The overall mining and power performance have been as shown in below given table:

Exhibit 2: Mining Sales Analysis

Nine Month Ended (Dec 21, 2017)	9MFY18		9MFY17		Inc/Dec. In Sales Volume (%)	Inc/Dec. in Sales Volume (%)
	(MT. Mn)	(Rs. Mn)	(MT. Mn)	(Rs. Mn)		
Lignite	7.2	11970	5.0	7980	44.5	50.0
Bauxite	0.2	180	0.2	170	(6.3)	5.9

Source: Company, Karvy Research

Exhibit 3: Power Sales Analysis

Nine Month Ended (Dec 21, 2017)	Installed Capacity (Unit in MW)	9MFY18		9MFY17		Inc/Dec. In Sales Volume (%)	Inc/Dec. in Sales Volume (%)
		(MT. Mn)	(Rs. Mn)	(MT. Mn)	(Rs. Mn)		
Combined Power (inc. Thermal, Wind and Solar)	455.9	1231	3090	1342	3390	(8.3)	(8.8)

Source: Company, Karvy Research

Exhibit 4: Q3FY18

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	9MFY17	9MFY18	YoY%
Turnover	5061	3457	46.4	3803	33.1	10385	14349	38.2
Expenditure	3747	2449	53.0	3141	19.3	7675	10195	32.8
EBITDA	1313	1008	30.3	662	98.5	2710	4154	53.3
Depreciation	376	369	2.0	424	(11.4)	1077	1131	5.0
Interest	5	4	21.3	4	28.7	10	12	30.1
Other Income	260	313	(17.0)	446	(41.7)	1511	832	(44.9)
PBT	1193	949	25.7	680	75.5	3135	3843	22.6
Tax	407	(182)	NA	214	90.1	792	498	(37.1)
PAT	786	1130	(30.5)	465	68.8	2342	3345	42.8
EBITDA Margin (%)	26.0	29.2	(320) bps	17.4	856 bps	26.1	29.0	286 bps
EBIT Margin (%)	18.5	18.5	3 bps	6.2	1228 bps	15.7	21.1	535 bps
Net Profit Margin (%)	15.5	32.7	(1717) bps	12.2	328 bps	22.6	23.3	76 bps

Source: Company, Karvy Research

Exhibit 5: Segmental Financials

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	9MFY17	9MFY18	YoY%
Segment-wise revenues								
Mining	4544	2626	73.1	3257	39.5	8156	12158	49.1
Power	725	1081	(32.9)	1021	(29.0)	3389	3087	(8.9)
Segment-wise EBIT								
Mining	1357	603	125.2	443	206.5	1380	3355	143.1
Power	(110)	231	NA	(78)	NA	599	357	(40.3)
Segment-wise EBIT Margin (%)								
Mining	29.9	23.0	691 bps	13.6	1627 bps	16.9	27.6	1067 bps
Power	(15.2)	21.3	(3652) bps	(7.7)	(752) bps	17.7	11.6	(609) bps

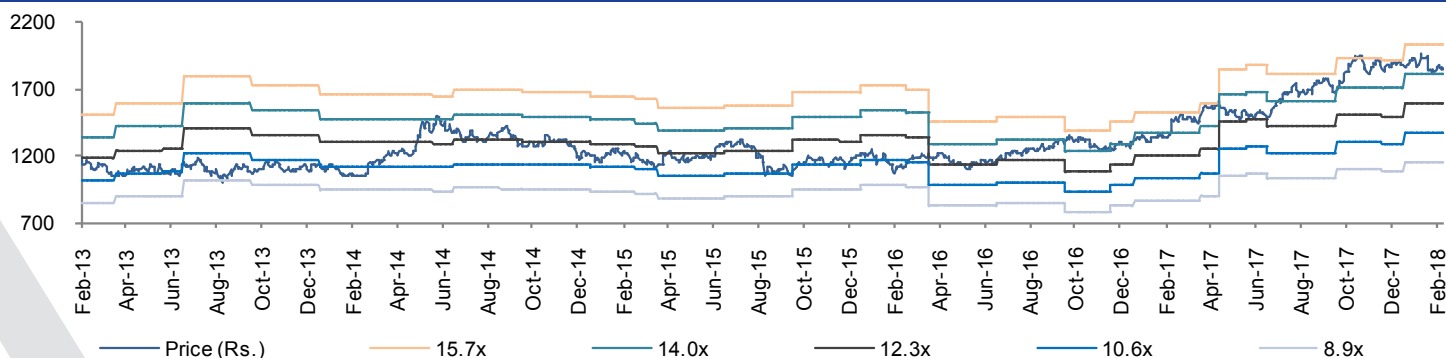
Source: Company, Karvy Research

Exhibit 6: Revised Earnings Estimates

YE Mar (Rs. Mn)	FY18E			FY19E			FY20E	Comments
	Old	New	% Change	Old	New	% Change	Introducing	
Net Sales	20570	19973	(2.9)	25713	24592	(4.4)	29289	Amidst strengthening of demand for mining products in domestic and global markets, there is going to be value driven rise in sales.
EBITDA	5570	5608	0.7	7163	7097	(0.9)	8623	
EBITDA Margin (%)	27.1	28.1	98	27.9	28.9	96	29.4	Operating margin and for that matter PAT and EPS to experience appreciation on the back of rising realization in lignite sales.
PAT	4270	4433	3.8	5556	5601	0.8	6790	
EPS (Rs.)	13.4	13.9	4.0	17.5	17.6	0.7	21.4	

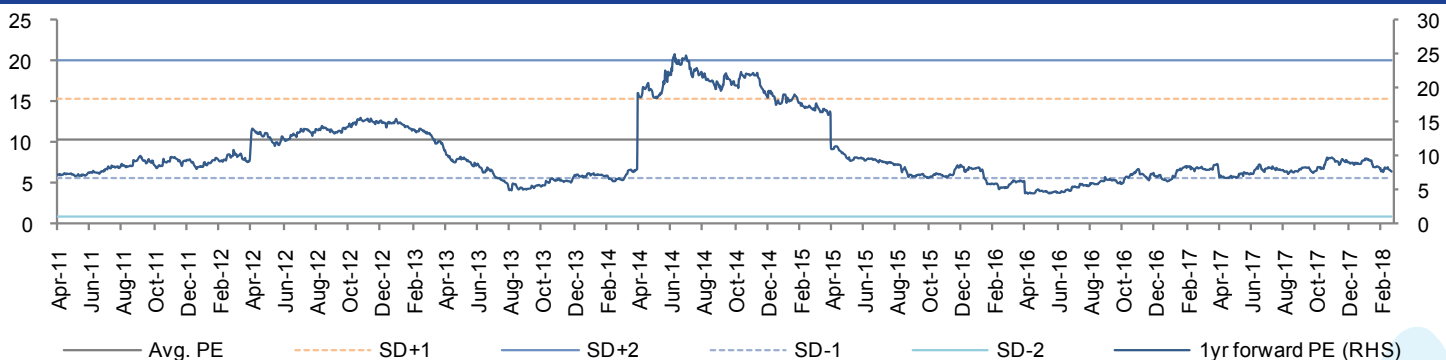
Source: Karvy Research

Exhibit 7: 5yr PE Band



Source: BSE, Karvy Research

Exhibit 8: GMDC 1yr forward PE Band



Source: Bloomberg, Karvy Research

Consolidated Financials

Exhibit 9: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	12153	15824	19973	24592	29289
Growth (%)	(14.3)	30.2	26.2	23.1	19.1
Operating Expenses	9265	11649	14365	17495	20666
EBITDA	2888	4174	5608	7097	8623
Growth (%)	(44.6)	44.5	34.3	26.5	21.5
Depreciation & Amortization	1307	1513	1980	2453	2944
EBIT	1581	2662	3628	4644	5679
Other Income	1550	1815	1997	2459	2929
Interest Expenses	11	13	14	12	13
PBT	3120	4463	5612	7090	8595
Tax	937	1218	1179	1489	1805
PAT	2190	3241	4433	5601	6790
Growth (%)	(56.2)	48.0	36.8	26.3	21.2

Source: Company, Karvy Research

Exhibit 10: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Cash & Cash Equivalents	622	497	741	484	346
Trade receivables	974	1265	1142	1149	1740
Inventory	435	688	625	723	882
Loans	190	179	198	210	228
Net Block	20279	23008	24740	27441	30755
Other assets	24521	25575	28900	33046	37266
Total Assets	47022	51213	56346	63053	71217
Current Liabilities	4182	4450	5392	6377	7613
Debt	0	0	0	0	0
Other Liabilities	5876	6688	7399	8474	9567
Total Liabilities	10059	11138	12792	14851	17179
Equity capital	636	636	636	636	636
Reserves & Surplus	36327	39439	42918	47566	53402
Total Networth	36963	40075	43554	48202	54038
Total Networth & Liabilities	47022	51213	56346	63053	71217

Source: Company, Karvy Research

Exhibit 11: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT	3120	4463	5612	7090	8595
Depreciation	1307	1513	1980	2453	2944
Interest	0	0	(14)	(12)	(13)
Tax Paid	(1594)	(1335)	(1179)	(1489)	(1805)
Inc/dec in Net WC	369	1270	(318)	(870)	(1305)
Others	(1168)	(1383)	(1997)	(2459)	(2929)
Cash flow from operating activities	2034	4527	4084	4712	5486
Inc/dec in capital expenditure	(1559)	(4594)	(3712)	(5154)	(6258)
Inc/dec in investments	8	9	0	0	0
Others	882	1083	809	1139	1586
Cash flow from investing activities	(669)	(3503)	(2903)	(4015)	(4671)
Dividend paid	(1149)	(1149)	(954)	(954)	(954)
Cash flow from financing activities	(1149)	(1149)	(954)	(954)	(954)
Net change in cash	216	(124)	227	(257)	(139)

Source: Company, Karvy Research

Exhibit 12: Key Ratios

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin (%)	23.8	26.4	28.1	28.9	29.4
EBIT Margin (%)	13.0	16.8	18.2	18.9	19.4
Net Profit Margin (%)	18.0	20.5	22.2	22.8	23.2
Dividend Payout Ratio (%)	43.6	29.4	21.5	17.0	14.0
Net Debt/Equity (x)	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)
RoE (%)	6.0	8.4	10.6	12.2	13.3
RoCE (%)	4.3	6.9	8.7	10.1	11.1

Source: Company, Karvy Research

Exhibit 13: Valuation Parameters

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EPS (Rs.)	6.9	10.2	13.9	17.6	21.4
DPS (Rs.)	3.0	3.0	3.0	3.0	3.0
BVPS (Rs.)	116	126	137	152	170
PE (x)	9.2	12.0	9.8	7.8	6.4
P/BV (x)	0.5	1.0	1.0	0.9	0.8
EV/EBITDA (x)	6.8	9.2	7.6	6.1	5.0
EV/Sales (x)	1.6	2.4	2.1	1.8	1.5

Source: Company, Karvy Research; *Represents multiples for FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
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