



Farsight

MORNING FARSIGHT

Wednesday, June 06, 2018

GMDC

CMP:RS 105

TRGT:RS 140

TIME HORIZON: 1 YEAR

Gujarat Mineral Development Corporation (GMDC), 74% owned by the Gujarat government, is a sole lignite merchant miner in the state with ~120mt of mineable reserves at the company's existing mines. In April 2018, the company hiked lignite prices by Rs150/t across its mines, which we believe will spur FY19E earnings to Rs540 crs (23% yoy). We estimate 6% CAGR in lignite prices and company's renewed emphasis to improve profitability at its 250MW lignite-based power plant to drive 16% EBITDA CAGR over FY18-20E. Higher operating cash flows should also enhance GMDC's net cash position from Rs35/share in FY18 to Rs48/share in FY20E. The stock looks attractive at 2.5x FY20E EV/EBITDA. GMDC hiked lignite prices in April 2018 by Rs150/t across its mines. We do not perceive any downside risk to lignite prices (even post hike), as GMDC sells lignite at ~35% discount to imported coal. The price hike will help offset lower volumes in FY19E, aiding 29% yoy growth in EBITDA. Renewed emphasis on lignite power plant will help improve average PLF from 62% in FY18 to 65% in FY19E further to 70% in FY20E. As a result, we estimate 16% EBITDA CAGR over FY18-20E to Rs7.3bn. GMDC had net cash of ~Rs1110 crs (Rs35/share) as on 31st March 2018. Price hike in lignite and improving financials from power business should help improve operating cashflow to Rs 480 crs in FY19E and Rs600 crsbn in FY20E. As we expect GMDC to incur capex of Rs200 crs each for FY19E and FY20E, mainly towards acquiring land for future mining projects, net cash should increase to ~Rs1520crs (Rs48/share) in FY20E. GMDC has been trading at an average one-year forward EV/EBITDA of 5.3x over last five years. We believe the stock should trade at premium valuations, as the company is back on the growth (FY19E profits up by 23% yoy) with higher lignite and wind power profits and expected improvement in lignite power plants. Share ruling at Rs 105 can touch price of 140 in one year.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.