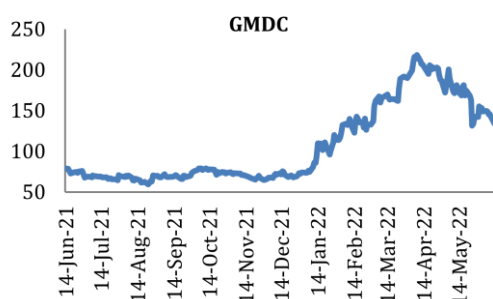


June 14, 2022

**GMDC LTD.**

Industry	Mining & Minerals
No. of Shares (Crore)	31.80
Face value (Rs.)	2.00
Mkt. Cap (Rs. Crore)	4262.79
Price (13/06/2022)	134.05
Book Value (Rs)	149.90
P/BV	0.90
BSE Code	532181
NSE Code	GMDC.LTD
Bloomberg	GMDC IN
Reuters	GMDC.BO
Avg. Weekly Volume (NSE)	16,86,844
52 W H/L (Rs)	228.50/59.10
<b>Shareholding Pattern</b>	<b>%</b>
Indian Promoters	74.00
Institutions	5.64
Non- Institutions	20.36
<b>Total</b>	<b>100.00</b>

(As on March 31, 2022)

**Recommendation**
**BUY**

**Company Background**

Gujarat Mineral Development Corporation Ltd (GMDC) is associated with mining and mineral processing and has the distinction of being India's largest merchant lignite miner. It has got 5 operational lignite mines and supplies the produce to local industries in Gujarat while retaining a small portion for operational of its own power plants. It has got 2 bauxite reserves too and is also into power production which includes thermal, wind and solar.

**Investment Rationale**

➤ A rise in prices of International Coal prompts users to shift to cheaper sources like Lignite thereby raising demand. The Russian-Ukraine war has shot up international coal prices from \$237/ton at the end of Feb 2022 when the war began to currently \$390/ton. Sales for FY22 has gone up by 104% YoY to Rs 2732 Cr, while EBIDTA has risen 484% to Rs 834 Cr in the same period.

➤ Looking to foray into manufacturing of Rare Earth Elements which shall find application in across various industries like electronics, defence, laser and radar systems, etc. GMDC holds >184 hectares of mining lease for base metal deposits in Banaskantha, North Gujarat. It is also looking to commence exploration for rare-earth elements (REE), and expects to provide more details over the next few months.

➤ Demand for lignite in Gujarat is about 25-28 Million Tonnes and GMDC is producing about 8-9 Million Tonnes. Hence, there is a huge scope of growth given it is targeting volumes of about 10 Million Tonnes for FY23.

➤ It is working on six new mining projects, of which three are coming up in Kutch while rest in South Gujarat and has earmarked a capex of Rs 670 Cr in FY23. Production is expected to begin in the next 1.5 to 2 years.

➤ Being the only miner of Lignite in that region place it at a advantageous position with regards to its customers. Purchasing of coal from Coal India located about 700 Kms away proves to be a logistic issue as well as high transportation cost. Hence, they prefer Lignite produced by GMDC. GMDC's customers mainly comprise of small to medium players whose boilers are designed to run on domestic lignite.

➤ GMDC is looking into non-lignite businesses like silica sand, Fluorspar, multi metal, limestone for which it has appointed Boston Consultancy Group (BCG) to do the homework. In the coming years, it is aiming to earn at least 50% revenue from non-lignite portfolio.

➤ Mining of Fluorspar is another area where GMDC intends to foray into. It has good some good mines in Kadipani of Fluorspar Mineral. It has already quoted an RFP (Request For Proposal) for PMC (Project Management Contract) of the plant. Fluorspar finds applications in industries like steel, aluminum, welding electrodes etc.

➤ Debt free company with cash and investments worth Rs 668 Cr at the end of March 2022.

**Recommendation**

Elevated international coal price on account of global geo-political tensions is expected to keep lignite prices high too. A change over in top management last year proved effective in turning round the company. Foraying and developing into new products as Rare Earths could be another value unlocking in future. We are assigning a target of Rs 168 by valuing it at 5.5x FY23E EV/EBIDTA, thus implying a rise of 26% from current levels in the next 9-12 months.

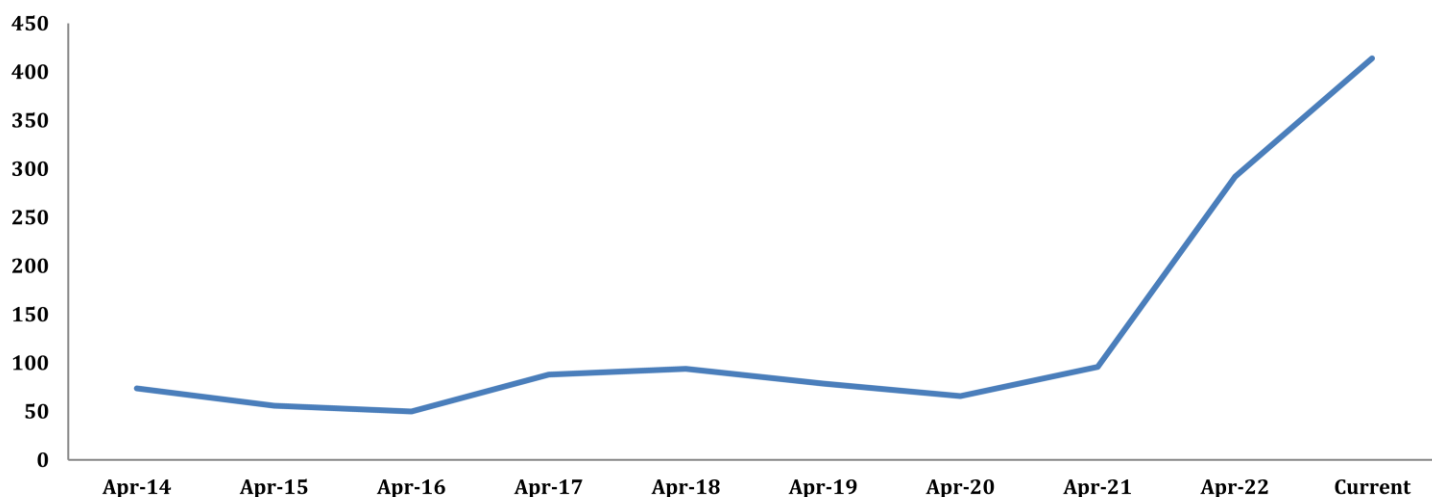
Particulars (In Rs. Crs)	Q4FY22	Q4FY21	Var%	FY22	FY21	Var%
Net Sales	1057.28	565.81	86.86	2732.08	1342.63	103.49
Operating Profit	419.95	31.80	1220.40	678.56	-6.16	-
Consolidated Net Profit	176.99	-184.64	-	404.97	-35.77	-
PBIDTM%	39.72	5.62	606.62	24.84	-0.46	-
PATM%	16.66	-32.93	-	14.77	-2.86	-
Equity	63.60	63.60	-	63.60	63.60	-
EPS (Rs.)	5.57	-5.81	-	12.74	-1.12	-

\*Source: Company, Ace Equity, AUM Research

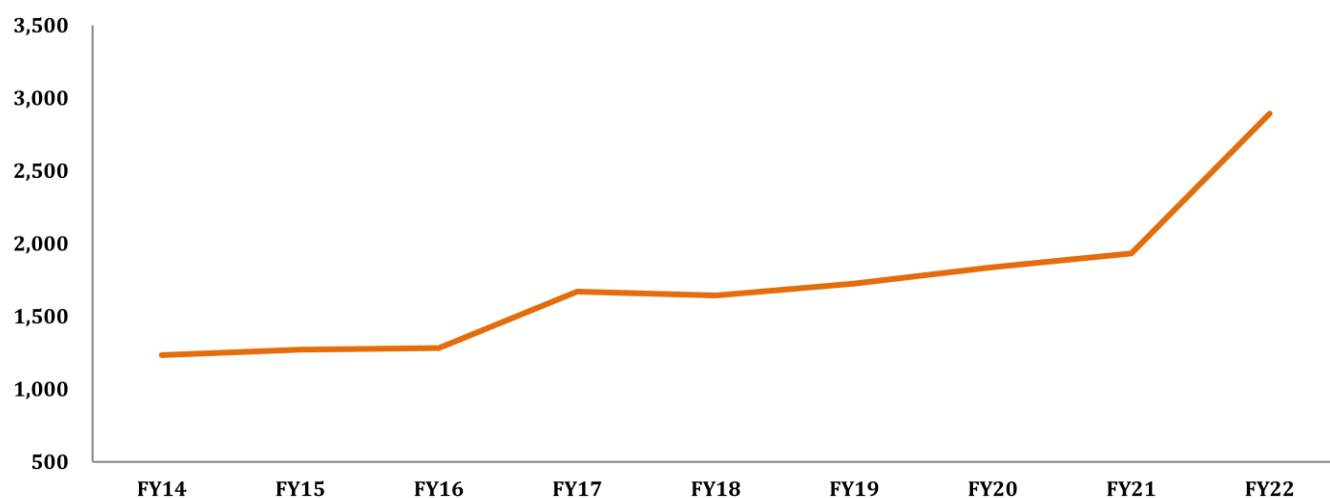
\*\*Unaudited Results

## Rise In International Coal price leads to a rise in price of Lignite

International Coal Price In USD/Ton



Lignite Realization Price Rs/Ton



\*Source: Company, Tradingeconomics, AUM Research

- A rise in prices of international coal leads to a hike in price of Lignite which is a low grade coal as many customers look for substitutes. Customers, especially SMEs fall back on known solid fuels like lignite which is half the price of imported coal.
- The Russian-Ukraine war has shot up international coal prices from \$237/ton at the end of Feb 2022 when the war began to currently \$390/ton.
- Indonesia too has banned export of coal from Jan 2022 as it had its own domestic availability issues.
- On 7 April, after much deliberation, all 27 EU governments agreed to ban the import of Russian coal and other solid fossil fuels from 10 August 2022.
- The two major coal-consuming economies of the world – China and India – have recently increased their coal consumption as skyrocketing natural gas prices have incentivized more coal use for power generation. **(India is facing an acute power crisis in many states which had prompted the Govt. to increase coal imports).**

### Immediate future of International Coal Price

- The war does not seem to end soon with both parties pushing hard. The Western nations have already imposed hard sanctions on Russia.
- Russia is a significant exporter of coking coal, supplying about 30% of Europe's needs, and if self-sanctioning by European steel mills does occur, an already tight seaborne market is going to face further challenges.
- The world's main coal producers – Indonesia, Australia, Russia, Colombia, South Africa and the US – are struggling to keep up with demand, although they do have the capacity to increase production.
- Poland has been pushing for environmental rules to be temporarily relaxed to allow the use of more easily available – but dirtier – coal types like lignite rather than the thermal coal imported from Russia.
- The world is looking towards Indonesia and Australia for supply of coal. But, as stated earlier Indonesia has banned exports due to its own domestic scarcity and Australia faced untimely rains in the month of May due to which mining and loading activity got hampered.
- Weather forecasters in Australia have predicted an above average rainfall for most of Australia during June-August, with an 80pc chance of above median rainfall in large areas of inland Australia, including parts of the Hunter and Gunnedah valleys that contain coal mines. The coastal regions, including the key ports of Newcastle and Port Kembla, are more likely to have an averagely wet winter.

**Conclusion:-** *International Coal Prices look to remain elevated as the latest crisis compounds supply chain constraints that had already reduced inventories around the world. Coal traders across Europe, China, Japan and South Korea have been looking to secure supplies in expectation that the market will tighten further.*

## Income Comparison – Mining



Project	FY21-22		FY20-21		Increase / (Decrease) in Quantity	Increase / (Decrease) in Sales
Lignite	MT (Lakh)	Rs. Cr	MT (Lakh)	Rs. Cr		
Mata No Madh *	34.84	931	22.94	416	52%	124%
Rajpardi	7.11	319	5.78	156	23%	104%
Tadkeshvar	8.99	279	12.73	260	(29%)	7%
Bhavnagar	16.37	460	4.92	96	233%	380%
Umarsar *	18.20	486	13.67	233	33%	108%
<b>Total – Lignite</b>	<b>85.52</b>	<b>2475</b>	<b>60.06</b>	<b>1161</b>	<b>42%</b>	<b>113%</b>
Bauxite (Gadhsisa & Bhatia)	3.96	67	3.89	53	2%	25%
<b>Total</b>	<b>89.48</b>	<b>2542</b>	<b>63.95</b>	<b>1214</b>	<b>40%</b>	<b>109%</b>

\* INCLUDING BRANCH TRANSFER TO ATPS POWER PLANT FOR CAPTIVE CONSUMPTION FROM:-  
 MATA NO MADH 4.80 LAKH MT FOR RS. 80.42 CR. (P.Y. 2.85 LAKH MT OF RS. 32.93 CR.)  
 UMARSAR 0.68 LAKH MT FOR RS. 8.42 CR. (P.Y. 3.12 LAKH MT OF RS. 39.81 CR.)

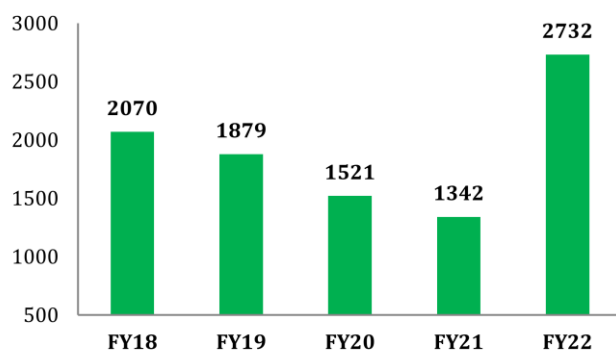
\*Source: Company, AUM Research

## Capex and New Projects

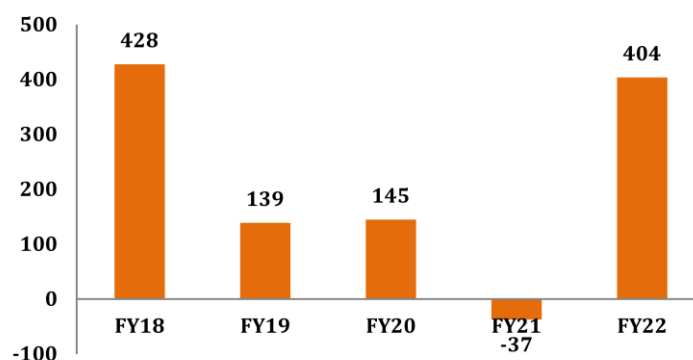
- GMDC has earmarked a capex of Rs 670 Cr for FY23 for developing of new projects, not only for lignite but other commodities as bauxite, silica, fluorspar, limestone etc.
- The demand for lignite in Gujarat is high and GMDC has plans to increase the production volume by 10%-15% annually. A high realization price shall aid in higher revenues.
- At present, GMDC caters to about one-quarter of the total demand of Gujarat and it aims to ramp up its lignite production so as to be able to cater to nearly 50 per cent of the demand of Gujarat and also look to explore other markets including Maharashtra and NCR.
- GMDC has obtained 6 new lignite blocks comprising about 540 Million tons of lignite reserves. Apart from lignite, some other minerals like limestone to the tune of 2,000 Million tons and silica sand is also present.
- Banaskantha district of Gujarat is a rich mineral deposit base and GMDC holds a mining lease of over 184 hectare. The metal content is about 10% comprising of Copper 1.5%, Lead 3.5% and the rest being zinc. The company is planning to start a geological survey of the area and conducting a techno-feasibility study.
- GMDC has got a plant at Kadipani district for Fluorspar Mineral. It has quoted an RFP(Request For Proposal) for PMC(Project Management Consultancy) of the plant. It aims to board an EPC player soon to start operations. The project shall be a JV with Gujarat Fluorochemicals and Navin Fluorine International having a capacity of 40,000 tonnes per annum.
- Two bauxite beneficiation plants are expected with an investment between Rs 15 crore and Rs 45 crore.
- Coal beneficiation plants are expected to come up in Bhavnagar and Kutch of Gujarat, each with an expected investment of Rs 25-30 crore.

## Improving Financials

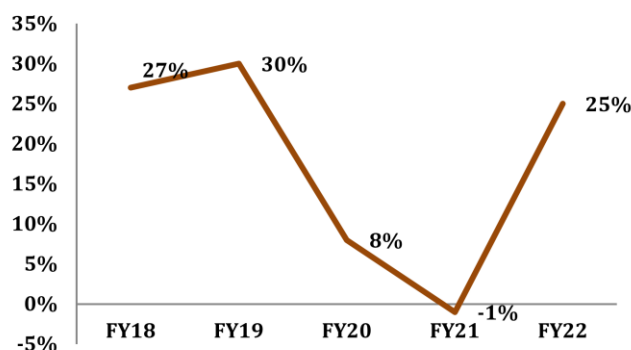
**Revenue In INR Cr**



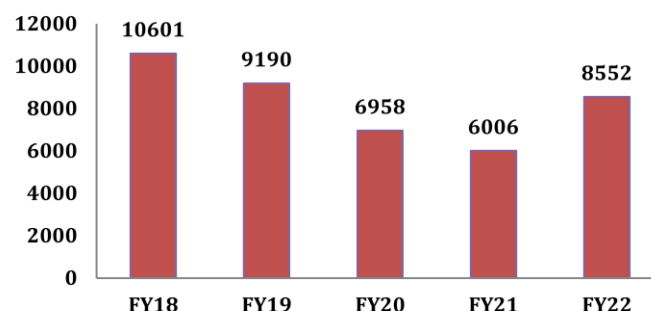
**PAT In INR Cr**



**EBIDTA%**



**Production Volume In '000**



\*Source: Company, AUM Research



## **Financials**

Quarterly Results (Value in Rs. Crs)						
Particulars	Q4FY22	Q4FY21	Var%	FY22	FY21	Var%
Net Sales & Other Operating Income	1057.28	565.81	86.86	2732.08	1342.63	103.49
Total Expenditure	637.33	534.00	19.35	2053.52	1348.79	52.25
PBIDT (Excl OI)	419.95	31.80	1220.40	678.56	-6.16	-
Other Income	39.69	42.56	-6.73	156.79	152.94	2.52
Operating Profit	459.65	74.36	518.10	835.35	146.78	469.12
Interest	0.56	0.48	15.59	2.13	1.96	8.67
Exceptional Items	0.00	-396.60	-	0.00	-396.60	-
PBDT	459.09	-322.71	-	833.22	-251.78	-
Depreciation	35.88	27.65	29.74	97.98	94.21	4.00
Tax	247.08	-164.06	-	331.74	-307.58	207.85
Net Profit	176.14	-186.31	-	403.49	-38.42	-
Share Of Associates	0.86	1.67	-48.74	1.48	2.65	-44.15
Consolidated Net Profit	176.99	-184.64	-	404.97	-35.77	-
Equity	63.60	63.60	-	63.60	63.60	-
EPS (Rs.)	5.57	-5.81	-	12.74	-1.12	-

Income Statement (Value in Rs. Crs)			
Particulars	FY21	FY20	FY19
Net sales	1325.59	1449.15	1879.68
Total Expenditure	1335.33	1323.51	1323.58
Operating Profit (Excl OI)	-9.74	125.64	556.10
Other Income	152.94	170.64	144.45
Operating Profit	143.20	296.28	700.55
Interest	1.96	1.88	1.83
PBDT	141.24	294.40	698.73
Depreciation	94.21	91.58	96.14
Profit Before Tax and Exceptional Items	47.03	202.82	602.59
Exceptional Items	-396.59	0.00	-
Provision for Tax	-307.58	58.32	-
Net Profit	-41.99	144.50	-
Share Of Associates	2.65	1.99	0.14
Consolidated Net Profit	-39.34	146.49	-
EPS (Rs.)	-1.24	4.61	-

\*Source: Company, ACE Equity, AUM Research

Balance Sheet (Value in Rs. Crs)			
Particulars	FY21	FY20	FY19
<b>EQUITY AND LIABILITIES</b>			
Share Capital	63.60	63.60	63.60
Share Warrants Outstanding	0.00	0.00	0.00
Total Reserves	3971.24	4032.45	4253.69
<b>Shareholder's Funds</b>	<b>4034.84</b>	<b>4096.05</b>	<b>4317.29</b>
Secured Loans	0.00	0.00	0.00
Unsecured Loans	0.00	0.00	0.00
Deferred Tax Assets / Liabilities	-54.56	111.36	119.71
Other Long Term Liabilities	19.97	35.60	50.66
Long Term Provisions	560.34	517.41	473.03
<b>Total Non-Current Liabilities</b>	<b>525.75</b>	<b>664.37</b>	<b>643.39</b>
Trade Payables	174.13	137.19	109.71
Other Current Liabilities	160.95	143.59	125.58
Short Term Borrowings	0.00	0.00	0.00
Short Term Provisions	12.58	16.47	10.74
<b>Total Current Liabilities</b>	<b>347.65</b>	<b>297.25</b>	<b>246.03</b>
<b>Total Liabilities</b>	<b>4908.25</b>	<b>5057.66</b>	<b>5206.71</b>
<b>ASSETS</b>			
Gross Block	2561.71	2545.16	2524.05
Less: Accumulated Depreciation	669.61	577.56	484.45
Less: Impairment Of Assets	396.59	0.00	0.00
<b>Net Block</b>	<b>1495.50</b>	<b>1967.60</b>	<b>2039.59</b>
Capital Work in Progress	5.62	4.30	0.76
Non Current Investments	388.25	354.29	520.38
Long Term Loans & Advances	639.72	687.05	556.19
Other Non Current Assets	712.73	578.97	585.89
<b>Total Non-Current Assets</b>	<b>3241.83</b>	<b>3592.20</b>	<b>3702.82</b>
Currents Investments	0.00	0.00	0.00
Inventories	98.50	95.12	98.13
Sundry Debtors	141.31	139.53	147.48
Cash and Bank	267.16	96.70	88.67
Other Current Assets	64.72	33.65	23.99
Short Term Loans and Advances	1094.74	1100.46	1145.62
<b>Total Current Assets</b>	<b>1666.42</b>	<b>1465.46</b>	<b>1503.89</b>
Net Current Assets (Including Current Investments)	1318.77	1168.21	1257.86
Total Current Assets Excluding Current Investments	1666.42	1465.46	1503.89
<b>Total Assets</b>	<b>4908.25</b>	<b>5057.66</b>	<b>5206.71</b>

\*Source: Company, Ace Equity, AUM Research

June 14, 2022

**Aum Capital RESEARCH DESK**

Rajesh Agarwal	Head of Research	033-4057 21221	<a href="mailto:rajesh.agarwal@aumcap.com">rajesh.agarwal@aumcap.com</a>
Tanya Kothary	Manager – Equity Research	033-4057 21221	<a href="mailto:tanya.kothary@aumcap.com">tanya.kothary@aumcap.com</a>
Pinaki Banerjee	Manager- Research	033-405721221	<a href="mailto:pinaki.banerjee@aumcap.com">pinaki.banerjee@aumcap.com</a>

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AUM Capital Market Private Limited

Registered Office: 5, Lower Rawdon Street, Akashdeep building 1st Floor, Kolkata – 700020;

Phone: +91(33) 40572222; Fax: +91(33) 24760191

Website: [www.aumcap.com](http://www.aumcap.com); Email: [aumresearch@aumcap.com](mailto:aumresearch@aumcap.com)

SEBI Research Analyst Registration No.: INH300002423