



## INDIA

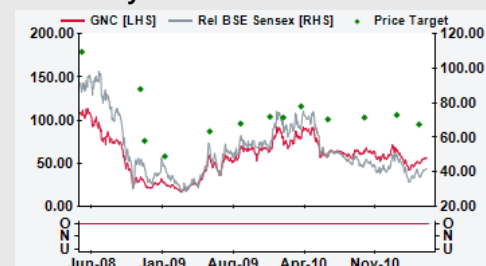
GNC IN Outperform  
Price 22 Apr 11 Rs56.45

12-month target	Rs	95.00
Upside/Downside	%	68.3
Valuation	Rs	95.00
- Sum of Parts		
GICS sector		Materials
Market cap	Rsm	28,643
30-day avg turnover	US\$m	4.0
Market cap	US\$m	645
Number shares on issue	m	507.4

### Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Revenue	m	14,399	19,992	27,648	27,893
EBITDA	m	2,346	7,109	11,384	11,862
EBITDA growth	%	-39.4	203.0	60.1	4.2
Adjusted profit	m	169	2,629	4,893	4,673
EPS adj	Rs	0.34	4.78	8.90	8.50
EPS adj growth	%	-93.9	1,311.1	86.1	-4.5
PER rep	x	415.4	8.8	4.5	4.7
Total DPS	Rs	1.28	0.93	1.20	0.68
Total div yield	%	2.3	1.6	2.1	1.2
ROA	%	2.4	8.7	13.7	13.3
ROE	%	1.2	18.6	27.4	21.5
EV/EBITDA	x	22.3	7.8	4.8	4.6
Net debt/equity	%	103.6	102.2	59.6	53.8
P/BV	x	2.2	2.0	1.6	1.3

### GNC IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, April 2011  
(all figures in INR unless noted)

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Macquarie Capital Securities India (Pvt)  
Ltd

# Gujarat NRE Coke

## Third quarter in a row!

### Event

- **4QFY11 beats our estimates:** GNC reported standalone Q4 results on Sunday which were 31% ahead of our estimates. It remains on track to reach our full year consolidated estimates and with improving outlook is well poised to show a sharp increase in profitability. Maintain Outperform.

### Impact

- **Q3 standalone results – recovery continues:** Net sales at Rs4.6bn were up 5%QoQ driven by a 12% increase in coke realisation. EBITDA at Rs652mn is up 24% QoQ as costs were helped by consumption of coking coal inventory. Net profit at Rs508mn is one of the highest reported since 3QFY09 and up 148% QoQ.
- **Reducing inventory:** GNC has successfully reduced coking coal inventory by 285kt during the quarter and we expect that this will be further reduced in the next quarter to a more normal level of 300k. Coke inventory has not been reduced much (~21kt) but is expected to reduce by 50-60k tin 1Q. The profits will be seen in consolidated results as the Australian subsidiary has directly sold its production to Chinese customers.
- **All eyes on Australian subsidiary now:** GNC's Australian subsidiary GNM (GNM AU, A\$0.56, OP, TP: A\$1.1, Sophie Spartalis) had reported mid year earnings of A\$25.3mn and we expect that continued strength in coking coal prices will help this business deliver strong earnings. Its mine development remains on track and is the key catalyst for earnings.
- **Bullish fundamentals for coking coal:** We remain extremely bullish on coking coal fundamentals and expect prices of US\$251/t for coking coal and US\$464/t for coke for FY12. We estimate that every US\$10/t increase in coke and coking coal prices would increase earnings by 4–5%.

### Earnings and target price revision

- No Change.

### Price catalyst

- 12-month price target: Rs95.00 based on a Sum of Parts methodology.
- Catalyst: Strengthening coking coal prices

### Action and recommendation

- **Maintain Outperform:** GNC has underperformed the market in the past few months on concerns about profitability. We believe that given the lack of consolidated financial results, investors have been caught looking at just standalone profits which are becoming a smaller and smaller proportion of profits.
- The company is currently trading at 5x PER on FY2012E as compared to global coking coal companies at 10x. We believe that the current valuation is a good opportunity to take entry before results of the mining subsidiary.

## Increasing profitability

**Fig 1 4Q FY11 – showing growth YoY and sequentially**

Profitability (Rsm)	4QFY11	4QFY10	YoY	3QFY11	QoQ
Net sales	4,594	3,959	16%	4,388	5%
EBITDA	652	232	181%	527	24%
EBITDA margin	14.2%	5.9%	142%	12.0%	18%
Depreciation	133	119	11%	129	3%
Interest	391	437	-11%	404	-3%
Other income	436	379	15%	223	96%
PBT	564	55		216	161%
Extraordinary income (loss)	-	-		-	
Tax	56	12	371%	11	415%
PAT	508	43	1068%	205	148%
EPS - fully diluted (Rs)	0.92	0.09	947%	0.37	148%

Source: Company Data, Macquarie Research, April 2011

**Fig 2 Lower sales volume offset by higher prices**

	4QFY11	4QFY10	YoY	3QFY11	QoQ
Coke production (tonnes)	185,000	177,000	5%	162,000	14%
Coke sales (tonnes)	182,000	197,000	-8%	204,000	-11%
Coke realization (US\$/ tonne)	442	335	32%	395	12%

Source: Company Data, Macquarie Research, April 2011

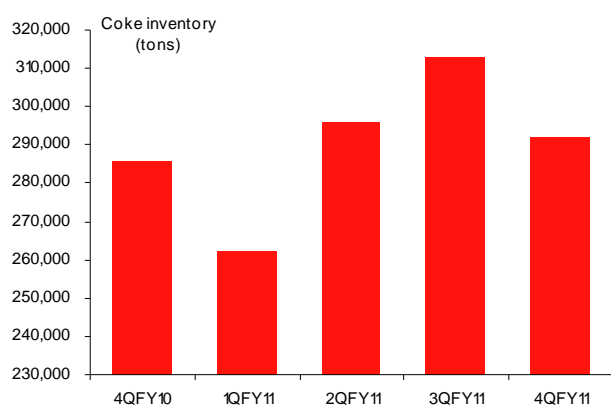
**Fig 3 Ahead of our estimates**

	4QFY11	4QFY11E	% diff
Net sales	4,594	5,651	-19%
EBITDA	652	879	-26%
EBITDA margin	14.2%	15.6%	-9%
Depreciation	133	120	11%
Interest	391	360	8%
Other income	436	180	142%
PBT	564	579	-3%
Tax	56	191	-71%
PAT	508	388	31%
EPS - fully diluted (Rs)	0.92	0.71	31%

Source: Company Data, Macquarie Research, April 2011

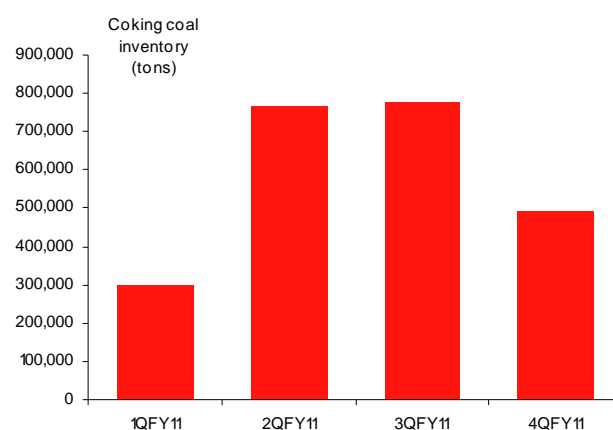
## Reducing coking coal inventory through internal consumption

**Fig 4 Quarterly coke inventory – slight decline**

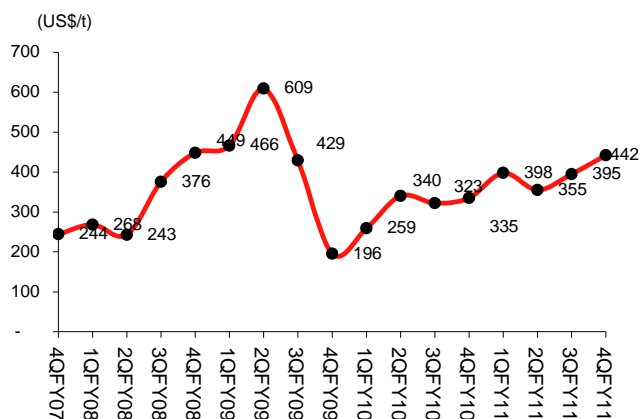


Source: Company Data, Macquarie Research, April 2011

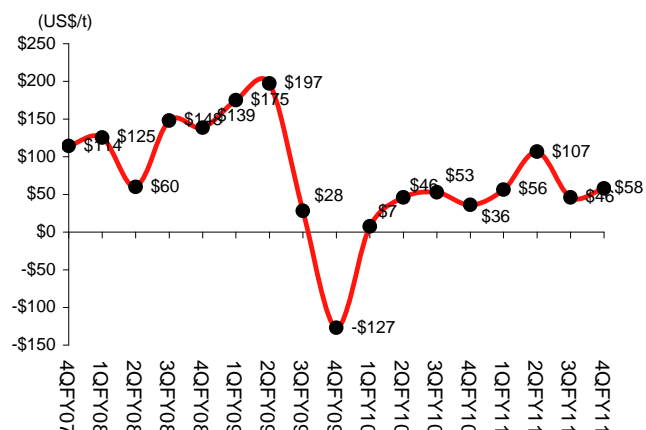
**Fig 5 Quarterly coking coal inventory- the reduction will show up in consolidated profits**



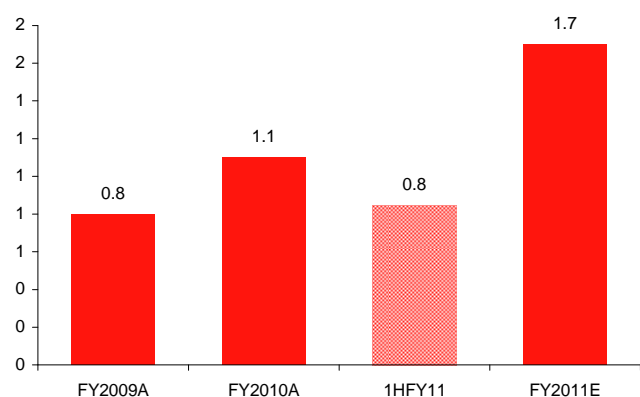
Source: Company Data, Macquarie Research, April 2011

**Fig 6 Took advantage of high prices in the spot market...**

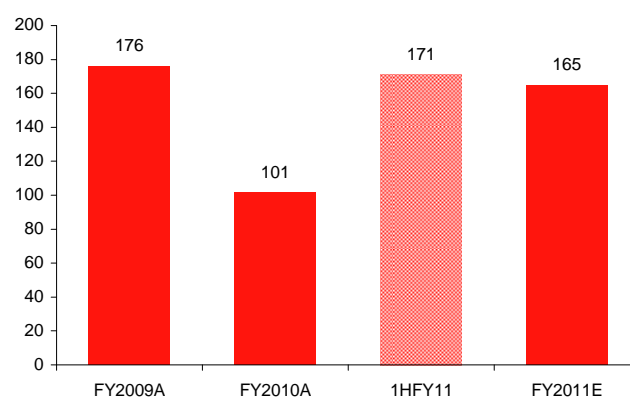
Source: Company Data, Macquarie Research, April 2011

**Fig 7 Margins remained strong for coke**

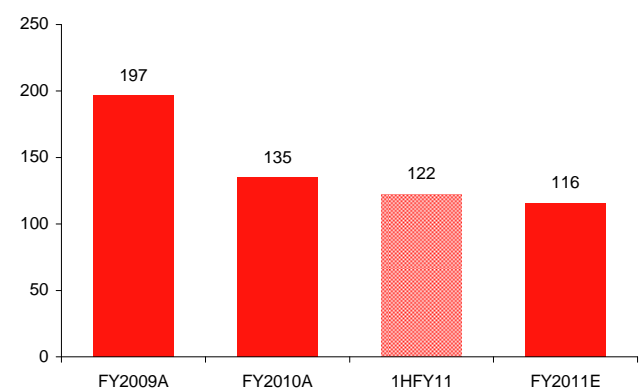
Source: Company Data, Macquarie Research, April 2011

**All eyes on Australian subsidiary now****Fig 8 Production mt**

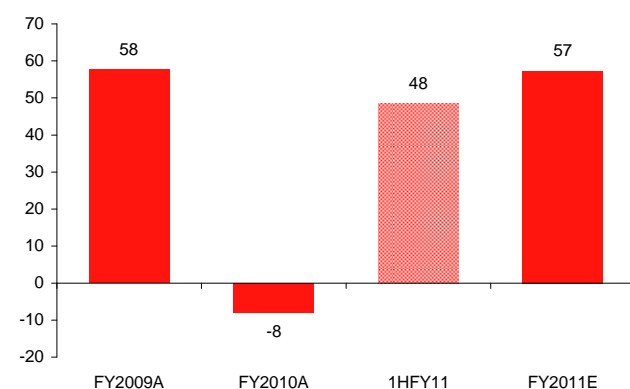
Source: Company Data, Macquarie Research, April 2011

**Fig 9 Realisation A\$/t**

Source: Company Data, Macquarie Research, April 2011

**Fig 10 Cost A\$/t**

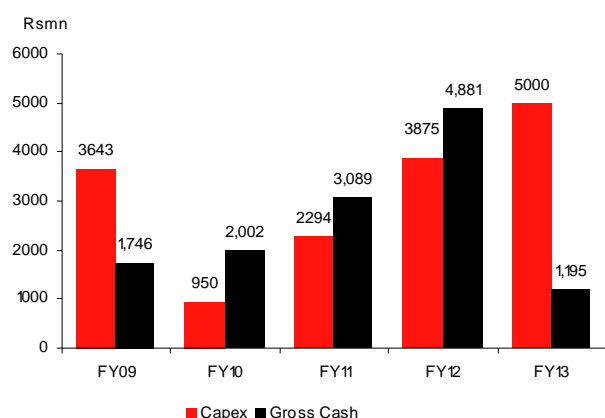
Source: Company Data, Macquarie Research, April 2011

**Fig 11 EBITDA A\$/t**

Source: Company Data, Macquarie Research, April 2011

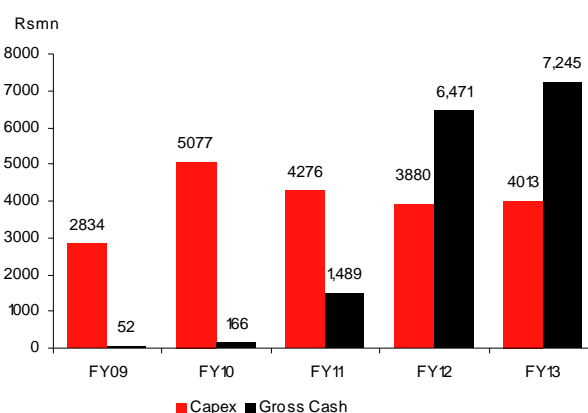
## With recent dilution GNM fully funded for capex and on track for growth

**Fig 12 Capex and cash levels for Indian operations**



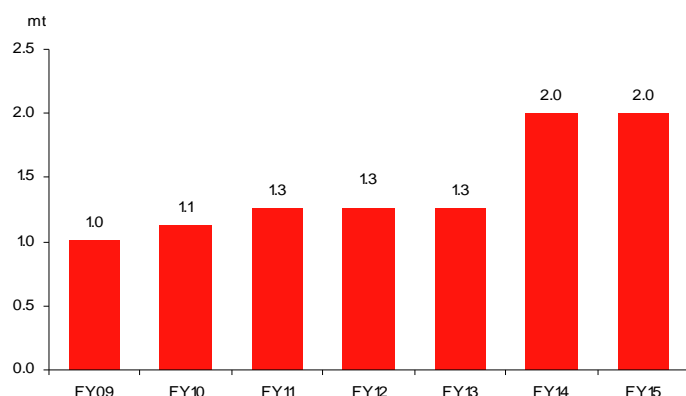
Source: Company Data, Macquarie Research, April 2011

**Fig 13 Australian operations have cash to fund growth projects**



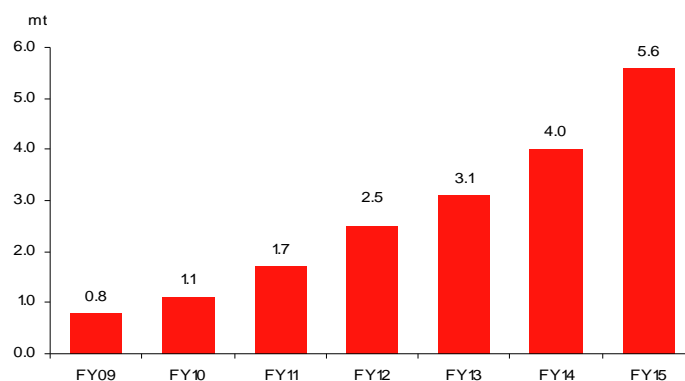
Source: Company Data, Macquarie Research, April 2011

**Fig 14 Coke making capacity expanding in India**



Source: Company Data, Macquarie Research, April 2011

**Fig 15 and coking coal to see and increase in Australia**



Source: Company Data, Macquarie Research, April 2011

**Fig 16 Our assumptions**

		FY09A	FY10A	FY11E	FY12E	FY13E
<b>Indian Operations</b>						
Coke capacity	tonnes	1.01	1.13	1.26	1.26	1.26
Coke production volume	tonnes	0.77	0.70	0.70	0.94	1.04
Coke sales volume	tonnes	0.70	0.75	0.75	0.94	1.04
<b>Coke realization</b>	<b>US\$/ tonne</b>	<b>329</b>	<b>274</b>	<b>394</b>	<b>436</b>	<b>393</b>
Raw coal consumption	tonnes	1.01	1.11	1.11	1.42	1.55
<b>EBITDA</b>	<b>Rsmn</b>	<b>3,431</b>	<b>1,724</b>	<b>2,799</b>	<b>3,227</b>	<b>3,281</b>
yoy		30%	-50%	62%	15%	2%
<b>Australian Operations</b>						
ROM coking coal production	m tonnes	0.80	1.10	1.70	2.50	3.10
Coking coal production	m tonnes	0.56	0.77	1.19	1.75	2.17
ROM coking coal realization	US\$/ tonne	<b>176</b>	<b>101</b>	<b>165</b>	<b>188</b>	<b>170</b>
Mine Operating cost	AUD/t	197	135	116	120	111
<b>PAT</b>	<b>A\$mn</b>	<b>-9</b>	<b>-12</b>	<b>63</b>	<b>148</b>	<b>168</b>
yoy	%			nmf	136%	13%
<b>Margins on coke and coal</b>						
EBITDA margin on coke ops	%	15%	13%	14%	17%	17%
EBITDA margin on coal ops	%	23%	-6%	33%	40%	42%

Source: Company Data, Macquarie Research, April 2011

Fig 17 Global valuation – a significant discount to peers

	Ticker	Reco	Currency	Price	Target price	Upside	PER - Reported EPS				EV/EBITDA			
							2009	2010	2011	2012	2009	2010	2011	2012
Indonesia														
Bumi Resources	BUMI	OP	USD	0.388	0.440	13%	39.6	31.6	9.8	9.2	14.6	7.9	3.6	3.1
Bayan Resources	BYAN	UP	IDR	17,250	14,000	-19%	269.1	100.4	19.9	14.8	83.2	40.1	11.8	8.7
Indika Energy	INDY	OP	IDR	3,975	5,800	46%	28.5	18.8	8.2	6.8	66.3	59.9	49.4	25.5
Indo	ITMG	OP	USD	5.54	8.11	46%	18.6	24.9	8.7	7.1	11.9	12.9	5.1	3.9
Bukit Asam	PTBA	OP	IDR	22,200	28,000	26%	18.6	25.4	12.7	11.1	12.9	18.6	8.6	7.3
Adaro Energy	ADRO	OP	IDR	2,225	3,250	46%	15.4	24.1	10.3	8.2	6.8	9.4	4.5	3.3
Average							64.9	37.5	11.6	9.5	32.6	24.8	13.8	8.7
China														
China Shenhua	1088	OP	CNY	31	34	10%	19.4	16.1	13.3	12.1	10.7	8.7	7.0	6.1
Yanzhou Coal	1171	Neutral	CNY	25	26	4%	29.5	16.4	12.1	12.2	18.4	10.1	7.8	7.5
Hidili Industry	1393	OP	CNY	6	7	10%	33.1	19.2	12.9	10.3	25.7	17.9	9.7	7.6
China Coal	1898	Neutral	CNY	9	10	10%	15.5	15.4	11.7	9.4	7.6	6.7	6.7	5.6
Fushan	639	Neutral	HKD	6	6	-6%	25.2	15.5	16.4	13.9	12.3	8.4	8.0	6.6
Average							24.6	16.5	13.3	11.6	14.9	10.4	7.8	6.7
India							FY10	FY11	FY12		FY10	FY11	FY12	
Gujarat NRE Coke	GNC	OP	INR	56	95	68%	166.6	8.8	4.5		19.6	7.8	4.8	
Coal India	COAL	Neutral	INR	362	370	2%	23.6	22.1	16.8		18.8	16.7	11.7	
Australian														
GNM	GNM	Neutral	AUD	1	1	27%	nmf	12.6	4.8		nmf	8.8	3.7	
Gloucester Coal	GCL	Neutral	AUD	10.8	10.8	0%	30.7	25.4	10.2		19.2	16.2	6.4	13.4
Macarthur Coal	MCC	UP	AUD	12.2	12.0	-1%	23.7	23.0	16.9		13.0	13.5	10.0	5.5
Average							27.2	20.3	10.6		16.1	12.8	6.7	9.5
United States														
Arch Coal	ACI	OP	USD	35	39	13%	124.0	33.5	14.4	9.2	17.4	10.0	6.9	5.0
Peabody Energy	BTU	OP	USD	66	75	14%	39.4	22.1	14.1	11.8	15.1	10.6	7.6	6.2
CONSOL Energy	CNX	Neutral	USD	51	53	3%	17.4	23.2	18.3	10.7	8.1	12.4	8.9	6.5
Massey Energy	MEE	Neutral	USD	67	60	-10%	67.4	nmf	19.1	12.1	14.6	24.3	8.0	5.9
Patriot Coal	PCX	Neutral	USD	26	28	7%	nmf	nmf	40.2	10.2	22.9	19.3	7.6	4.7
Average							62.0	26.3	21.2	10.8	15.6	15.3	7.8	5.7
Coking coal avg							63.5	17.8	9.9		19.4	12.8	6.9	

Source: Macquarie Research, April 2011; priced as at 21 April 2011

**Gujarat NRE Coke (GNC IN, Outperform, Target Price: Rs95.00)**

Quarterly Results						Profit & Loss					
		3Q/11A	4Q/11E	1Q/12E	2Q/12E			2010A	2011E	2012E	2013E
Revenue	m	5,998	5,998	5,530	5,530	Revenue	m	14,399	19,992	27,648	27,893
Gross Profit	m	0	0	0	0	Gross Profit	m	0	0	0	0
Cost of Goods Sold	m	3,865	3,865	3,253	3,253	Cost of Goods Sold	m	12,053	12,883	16,264	16,030
EBITDA	m	2,133	2,133	2,277	2,277	EBITDA	m	2,346	7,109	11,384	11,862
Depreciation	m	660	660	443	443	Depreciation	m	1,195	2,200	2,215	2,375
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	1,473	1,473	1,834	1,834	EBIT	m	1,151	4,909	9,170	9,487
Net Interest Income	m	-653	-653	-508	-508	Net Interest Income	m	-1,559	-2,178	-2,538	-2,434
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	458	458	344	344	Other Pre-Tax Income	m	888	1,527	1,722	1,829
Pre-Tax Profit	m	1,277	1,277	1,671	1,671	Pre-Tax Profit	m	480	4,258	8,354	8,882
Tax Expense	m	-216	-216	-299	-299	Tax Expense	m	-413	-722	-1,496	-2,294
Net Profit	m	1,061	1,061	1,371	1,371	Net Profit	m	68	3,537	6,857	6,587
Minority Interests	m	-272	-272	-393	-393	Minority Interests	m	101	-908	-1,964	-1,914
Reported Earnings	m	1,061	1,061	1,371	1,371	Reported Earnings	m	68	3,537	6,857	6,587
Adjusted Earnings	m	789	789	979	979	Adjusted Earnings	m	169	2,629	4,893	4,673
EPS (rep)		1.93	1.93	2.49	2.49	EPS (rep)		0.14	6.43	12.47	11.98
EPS (adj)		1.43	1.43	1.78	1.78	EPS (adj)		0.34	4.78	8.90	8.50
EPS Growth yoy (adj)	%	1,593.4	1,593.4	86.1	86.1	EPS Growth (adj)	%	-93.9	1,311.1	86.1	-4.5
						PE (rep)	x	415.4	8.8	4.5	4.7
						PE (adj)	x	166.6	11.8	6.3	6.6
EBITDA Margin	%	35.6	35.6	41.2	41.2	Total DPS		1.28	0.93	1.20	0.68
EBIT Margin	%	24.6	24.6	33.2	33.2	Total Div Yield	%	2.3	1.6	2.1	1.2
Earnings Split	%	30.0	30.0	20.0	20.0	Weighted Average Shares	m	498	550	550	550
Revenue Growth	%	66.6	66.6	38.3	38.3	Period End Shares	m	498	550	550	550
EBIT Growth	%	411.7	411.7	86.8	86.8						
Profit and Loss Ratios						Cashflow Analysis					
		2010A	2011E	2012E	2013E			2010A	2011E	2012E	2013E
Revenue Growth	%	-37.1	38.8	38.3	0.9	EBITDA	m	1,126	7,109	11,384	11,862
EBITDA Growth	%	-39.4	203.0	60.1	4.2	Tax Paid	m	-413	-722	-1,496	-2,294
EBIT Growth	%	-65.5	326.4	86.8	3.5	Chgs in Working Cap	m	-2,260	-6,829	1,967	38
Gross Profit Margin	%	0.0	0.0	0.0	0.0	Net Interest Paid	m	-1,559	-2,178	-2,538	-2,434
EBITDA Margin	%	16.3	35.6	41.2	42.5	Other	m	-1,195	-2,200	-2,215	-2,375
EBIT Margin	%	8.0	24.6	33.2	34.0	Operating Cashflow	m	-4,301	-4,819	7,101	4,797
Net Profit Margin	%	0.5	17.7	24.8	23.6	Acquisitions	m	-1,711	-3,257	1,801	-293
Payout Ratio	%	379.2	19.4	13.4	8.0	Capex	m	-8,302	-10,273	-4,241	-3,245
EV/EBITDA	x	22.3	7.8	4.8	4.6	Asset Sales	m	0	0	0	0
EV/EBIT	x	45.4	11.2	6.0	5.8	Other	m	0	1,527	1,722	1,829
Balance Sheet Ratios						Investing Cashflow	m	-10,013	-12,003	-718	-1,709
ROE	%	1.2	18.6	27.4	21.5	Dividend (Ordinary)	m	-555	-462	-596	-531
ROA	%	2.4	8.7	13.7	13.3	Equity Raised	m	-297	516	0	0
ROIC	%	0.5	11.6	15.8	14.7	Debt Movements	m	4,824	8,553	751	-2,590
Net Debt/Equity	%	103.6	102.2	59.6	53.8	Other	m	-1,892	2,693	177	-2,006
Interest Cover	x	0.7	2.3	3.6	3.9	Financing Cashflow	m	2,080	11,299	332	-5,127
Price/Book	x	2.2	2.0	1.6	1.3	Net Chg in Cash/Debt	m	-12,234	-5,522	6,715	-2,039
Book Value per Share		25.2	28.7	36.3	42.7	Free Cashflow	m	-12,603	-15,093	2,860	1,552
						Balance Sheet					
		2010A	2011E	2012E	2013E			2010A	2011E	2012E	2013E
Cash	m	1,629	4,010	10,966	7,944	Cash	m	1,629	4,010	10,966	7,944
Receivables	m	4,495	3,700	3,838	4,067	Receivables	m	4,495	3,700	3,838	4,067
Inventories	m	8,946	14,426	12,647	12,538	Inventories	m	8,946	14,426	12,647	12,538
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	24,498	29,281	33,396	37,700	Fixed Assets	m	24,498	29,281	33,396	37,700
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	10,195	11,875	9,547	10,254	Other Assets	m	10,195	11,875	9,547	10,254
Total Assets	m	49,762	63,291	70,394	72,504	Total Assets	m	49,762	63,291	70,394	72,504
Payables	m	7,699	7,052	6,977	7,453	Payables	m	7,699	7,052	6,977	7,453
Short Term Debt	m	0	0	0	0	Short Term Debt	m	0	0	0	0
Long Term Debt	m	19,571	28,123	28,875	26,285	Long Term Debt	m	19,571	28,123	28,875	26,285
Provisions	m	2,663	1,304	1,188	1,298	Provisions	m	2,663	1,304	1,188	1,298
Other Liabilities	m	2,518	3,218	3,323	3,386	Other Liabilities	m	2,518	3,218	3,323	3,386
Total Liabilities	m	32,450	39,697	40,362	38,421	Total Liabilities	m	32,450	39,697	40,362	38,421
Shareholders' Funds	m	12,548	15,754	19,971	23,478	Shareholders' Funds	m	12,548	15,754	19,971	23,478
Minority Interests	m	4,764	7,842	10,063	10,606	Minority Interests	m	4,764	7,842	10,063	10,606
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	17,313	23,596	30,034	34,084	Total S/H Equity	m	17,313	23,596	30,034	34,084
Total Liab & S/H Funds	m	49,762	63,293	70,396	72,505	Total Liab & S/H Funds	m	49,762	63,293	70,396	72,505

All figures in INR unless noted.

Source: Company data, Macquarie Research, April 2011

**Important disclosures:****Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 March 2011**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.65%	65.72%	59.70%	43.02%	68.91%	51.16%	(for US coverage by MCUSA, 14.36% of stocks covered are investment banking clients)
Neutral	39.49%	19.00%	29.85%	53.09%	26.43%	35.73%	(for US coverage by MCUSA, 17.55% of stocks covered are investment banking clients)
Underperform	14.86%	15.28%	10.45%	3.89%	4.66%	13.11%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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