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Gujarat NRE Coke Ltd

Gujarat NRE Coke Ltd, India's largest met coke merchant, is amidst three-fold capacity expansion. Its product Met Coke is currently in short supply and prices have shot up. Besides expansion, it is exploring both forward and backward integration opportunities. It also has an excellent opportunity in co-generation of power using waste-heat from its coke ovens.

Fair Value Rs.172

Price Rs.66

+161%

The stock currently trades at 2.5 times estimated EPS for YE Sep-05. We expect its diluted earning per share to grow at 30% and 21% over the next two years. We estimate DCF fair value at around Rs.172. Free Cash Flows to equity over the next four years equal current market capitalisation and this implies very high margin of safety.

Key Data

Market Cap	Rs.3.1 bn
Market Cap at fair value	Rs.8.1 bn
Shares Outstanding	47.16 mn
52 week High-Low	Rs.69/Rs.11
Average Daily Volume	No. of shares
BSE+NSE 365 days	402,000
BSE+NSE 30 days	163,000

Shareholding %

Promoters	55.78
Institutional Investors	9.94
Others	34.28

Major Shareholders

Dresdner RCM Little	4.86
UBS Swiss Fund	2.00

Stock Performance

3 months	89%
6 months	40%
12 months	408%

Multiple Valuation

	YE Sep-04E
EV/EBIT	2.5x
Market Cap/Sales	0.95x
P/E	3.2x
P/BV	2.1x

Near Term Likely Triggers

- Large capacity expansions to kick in from Oct-04 onwards
- Strong Earnings Growth
- Forward integration opportunity may materialise.

Key Investment Points

- Strong global demand for steel pushed up demand and prices of met coke substantially – enabling GNCL to earn handsome profits.
- Supply of raw material (coking coal), which is in short supply, tied up for YE Sep-05. Even ocean freight tied up.
- Met coke capacity to be tripled by Dec-05 – major growth driver over the next two years.
- Backward and forward integration being explored.
- Significant profit potential in the proposed 50 MW co-generation of power using waste-heat from coke ovens.

Value Kickers

- Further strengthening of met coke demand and higher supply of coking coal with major increase in mining planned.
- Power co-generation profits not considered in projections – can significantly enhance profits and valuations.

Party Poopers

- Entry of global coking coal mining firms like BHP Billiton in India with met coke plant is a long term threat.
- Major slowdown in global steel cycle will adversely impact earnings.
- Rapid expansion of met coke capacity in India is underway. Large expansions beyond the currently envisaged ones may lead to over capacity with consequent fall in profitability.
- Significant stake reduction by promoters is a concern.





Investment Summary

Gujarat NRE Coke Ltd has been in the business of producing Low Ash Metallurgical Coke (LAM coke / Met Coke) since 1995. Met coke is used mainly in steel industry by pig iron manufacturers and foundries. It is also used by zinc smelters, soda ash plants, and chemical manufacturers. GNCL was promoted by Jagatramka family of Kolkata. They currently own 56% stake in the company.

Key input for making Met coke is coking coal, which is mainly imported from Australia. China and Japan have been major producers and exporters of met coke. China has, however, now become a net importer of met coke.

GNCL is the largest and only significant merchant coke producer in India. Some of the other merchant coke plants, which are much smaller than GNCL, are BLA Industries at Mithapur, Saurashtra Fuels at Porbandar, and Antai Balaji at Kandla. There are much larger met coke plants in India but these are for captive consumption of integrated steel plants (SAIL, TISCO, RINL). Secondary Steel Sector (Mini Blast Furnaces) has been importing met coke so far but many of these are now looking at setting up coke oven plants for captive consumption. Foundries, Ferro Alloys makers, and chemical makers have been buyers from domestic coke plants.

GNCL's major customers include Hindustan Zinc, Nirma, Hindustan Organic Chemicals, Kalyani Steels, Aparant Iron & Steel, Jindal Vijaynagar, Gujarat Heavy Chemicals, Lanco Steel, Birla Copper, and Saurashtra Chemicals. Customers from Gujarat, Rajasthan, and Delhi contribute most to the revenues.

Industry wise sales break-up

Industry	%	Industry	%
Cast Iron Foundries	35	Zinc Smelters	22
Soda Ash plants	22	Cement plants	8
Brass Foundries	5	Copper Smelters	3

Prices of met coke have gone up significantly over the last year. GNCL's average met coke realization more than doubled this year. This led to extra ordinary jump in profits for the company for YE Sep-04. Given the strength in the global steel market and shortage of met coke capacity, we expect the realizations to continue to be high though they may come off from the peak.

Due to sudden spurt in met coke demand, even coking coal supply could not keep pace with the demand causing non-availability of coking coal and high prices. GNCL has tied up a large chunk of its coking coal requirement for the next year. It has also tied up shipping arrangements for coking coal import. The company is exploring the possibility of taking equity stake in one or more Australian mines to ensure long term supplies. Coking coal supply is likely to ease by 2006, as global mining firms are planning substantial increase in output. This can ease pressure on the raw material front.

Strong demand outlook for met coke has many firms planning to set up met coke plants in India. The additional capacities will start coming to market from 2005. GNCL is also embarking on significant capacity expansion to capitalize on the high Met coke demand. Met coke demand growth is being driven by strong growth in global steel sector especially in China, the US, India, and Brazil. GNCL's capacity will rise three-fold by Dec-05 and production is expected to rise by 370% by YE Sep-07. GNCL's expansion plans include a 60:40 JV with Kalyani Steels to produce met coke. While the new capacities will exert pressure on realizations, GNCL will more than make it through volume growth.

GNCL so far has been focused on domestic market only. It is now preparing for a scenario where domestic supply of met coke exceeds demand by making a trial export order to Brazil recently.

It also plans to set up 50MW co-generation power plant using waste-heat from coke ovens. This is an excellent business opportunity and can add substantially to profits and valuation.

The company is also contemplating forward integration opportunities. Currently, it is evaluating one such opportunity – a Goa-based pig iron unit with mini blast furnace.



Over the medium to long term, profitability of the company will depend upon growth in global steel demand, met coke capacity, and growth in coking coal mining. These will be key determinants of GNCL's growth. In the near term, we do not see any significant uncertainty with regard to GNCL's performance. We expect the QE Sep-04 and QE Dec-04 profits to be up by over 500% YoY.

The company promoters, however, do not seem to share our optimism. They have reduced their stake in the company from 72% in Sep-03 to 56% in Jun-04. In addition, they have recently reduced their stake in FCGL Industries, which is one of the promoters of GNCL. Stock price of both GNCL and FCGL continue to appreciate despite stake sale by promoters.

GNCL's stock offers very high margin of safety. Its current market cap is equal to its likely free cash flows to equity over the next four years. We estimate DCF fair value at around Rs.172. At the current price of Rs.66, it trades at mere 2.5x estimated fully diluted EPS for YE Sep-05 and offers significant appreciation potential.

Key Investment Arguments

Metallurgical Coke: Current Demand far exceeds supply

Surge in global demand for steel and other commodities caused a surge in global demand for met coke as well. The world capacity for met coke plants (also called coke ovens / coke batteries) was not enough to meet the exponential growth in demand. Even supply of coking coal, the raw material for making met coke, hit the capacity constraint. Frantic efforts are being made to mine more coking coal and set up more capacities for met coke. However, these will start to come to market only from 2005 onwards. In the meanwhile, spot prices of coking coal and met coke have gone up many folds. The prices are likely to remain strong as long as enough coking coal and met coke capacities do not come to the market.

In the near term, the super high realizations are there to stay. As the new met coke plants hit market during 2005-2006 and greater quantities of coking coal is available through development of additional mines, realization may dip sharply on sudden spurt in supply but are likely to bounce back in the medium to long term if the projected global steel demand growth scenario unfolds itself. Strong growth in global steel demand is projected by various economic and industrial bodies based on likely infrastructure and industrial growth not only in China but also in the US, India and Brazil.

Steel making capacity in India is planned to be raised from the current 35 million TPA to 100 million TPA by 2012. This will require 31mn tone of coke for the steel industry alone. Demand from producers of soda ash, zinc, and other chemicals will also grow. As per a study done by TISCO, a good merchant coke plant has a great potential.

Firm supply agreement for 650,000 MT coking coal till Sep-05

In the present scenario, met coke users are willing to pay any price for it rather than go without it. Ditto with Coking Coal. Availability of coking coal and met coke is more important for uninterrupted production. There is no perfect substitute for met coke. Met coke can be substituted by sponge iron but only to a small extent.

GNCL has made firm supply arrangement for sourcing coking coal till Sep-05 and is therefore assured of uninterrupted production till then. Coking coal is entirely imported, as the Indian coking coal has high ash content is not suitable for producing low ash met coke. The company tied up coal supplies from BHP Billiton of Australia and a few other Australian companies (500,000 MT), Khumba Resources of South Africa (100,000 MT), and Chinese companies (50,000 MT). A total of 650,000 MT has been tied up. We estimate that the company will need an extra 250,000 MT of coking coal till Sep-05 after considering opening inventory of coking coal. The company will have to either tie up this additional quantity or else buy it in the spot market. Estimates from leading industry analysts point towards a further rise in coking coal prices in 2005. It will therefore make sense to tie up the additional quantity as well. The company has stated that the tied up quantity is also to be used by its joint venture -- Bharat NRE Coke Ltd.



GNCL is exploring the backward integration possibility by taking equity stake in one or more Australian coking coal mines to ensure regular coking coal supply.

Firm shipping arrangement to shield from rising freight cost

Many firms across industries took care to book raw material supplies for long term but did not consider locking-in ocean freight. These firms have been hit hard due to many-fold rise in ocean freight. GNCL had the foresight to enter into firm shipping arrangement. It has tied up ocean freight at \$20-25 per ton with West Asia Maritime Overseas.

Supply of Coking Coal likely to ease by 2006

Global coking coal miners are planning to increase the production of coking coal. We estimate that the increased supply will ease the short supply situation by 2006 and may lead to around 20% fall in coking coal prices in 2006.

Looking at the planned increase in met coke and coking coal supply and projected demand scenario, we estimate that met coke price may fall relatively less at around 15% in 2006. The value addition per unit of met coke will certainly fall in 2006, but significantly higher volume (through capacity expansion) will still mean substantial increase in revenues and profits for the company.

Major global suppliers of coking coal are BHP Billiton, Rio Tinto, Xstrata, Anglo American, and Excel Coal. BHP Billiton plans to spend upto \$5bn to expand its share of the lucrative coking coal market. It has ambitious plans to double production by 2010. BHP has approved the first step in its plan to double capacity - a \$249 million expansion of its Queensland operations, including improvements at its Hay Point coal terminal. The company also intends to develop a new mine in Kalimantan, Indonesia, producing 5 million tonnes a year, and step up production at its Illawarra operations. It announced projects that would take production to 59 million tons by 2006 from 35 million tons in the year ended June 2004.

Rivals such as Anglo American Plc and Rio Tinto Group are also studying increasing coking coal output capacity. These capacity expansions are being driven by projection of 50% growth in coking coal demand to 270 million tonnes by 2010 due to strong demand in China, the United States, Brazil and India.

Joint Venture with Kalyani Steels for met coke production

GNCL has entered into a joint venture called Bharat NRE Coke Ltd (BNCL) with Kalyani Steels, a consumer of met coke. GNCL holds 59.375% in the JV. Kalyani Steels holds the balance. BNCL is currently setting up a 324,000 tpa coke plant at Dharwad in Karnataka. The capital cost is now pegged at Rs.620mn, up from Rs.450mn envisaged at the outset. The production is expected to commence in phases from Oct-04 to Dec-05. This plant will primarily cater to the met coke requirements of Kalyani Steels. The plant capacity can be ramped up to a million TPA.

BNCL has also entered into a technology transfer deal (including purchase of plant and machinery) with a Shanxy-based Chinese R&D company called SSIT China for stamp charged coke making machinery for the additional 400,000 tpa capacity. This new capacity is also likely to be available in phases by Dec-05. The capital cost has been pegged at Rs.800mn for the additional capacity of 400,000 TPA. Thus, the total capacity being built in BNCL at present is 724,000 TPA. GNCL's share of the capacity will be 429,875 TPA (59.375% of 724,000).

All the figures -- production, capacity, costs, revenues, profits, etc – referred to in this report are based on line-by-line consolidation of BNCL with GNCL.

Three-fold rise in GNCL's met coke capacity by Dec-05

Following 47% rise in capacity from 244,000 TPA to 358,000 TPA in YE Sep-04; GNCL's met coke capacity is planned to be over a million ton per annum by Dec-05 including the share of capacity in



the joint venture BNCL. We estimate the production (including the share from the JV) to rise 3.7 times to 945,000 MT in YE Sep-07.

YE Sep 30,	2003	2004E	2005E	2006E	2007E
Capacity					
Jamnagar	244,000	358,000	358,000	358,000	358,000
Kutch			324,000	324,000	324,000
Dharwad #			343,900	429,875	429,875
Total	244,000	358,000	1,025,900	1,111,875	1,111,875
Production					
Jamnagar	124,056	255,850	304,300	304,300	304,300
Kutch			262,700	275,400	275,400
Dharwad #			146,158	347,124	365,394
Total	124,056	255,850	713,158	926,824	945,094
Growth %	52%	106%	179%	30%	2%

share in JV's capacity & production

The company is estimated to incur capex of Rs.500mn in YE Sep-04 and Rs.1.3bn in YE Sep-05 to set up new capacities.

It is setting up a 324,000 TPA coke plant (nine chimneys of 36,000 TPA each) at Kutch. The first of the nine chimneys started production on March 12, 2004. Other chimneys are expected to commence production in phases by Feb-05. Total capital cost of this plant is now pegged at Rs.550mn, up from Rs.450mn pegged at the outset.

Power generation from waste heat gases holds excellent promise

World over, many firms have started generating power from the waste heat gases, which are of no value otherwise. The variable cost of power generation is negligible (only around 20-50 paise per unit), as no purchased fuel is used. This can be highly profitable business. Even in India, there are companies that have implemented such power projects and have benefited immensely from it.

Waste heat from coke ovens can be used to generate electricity, which can be used for captive consumption and for third party sale. GTCL has been mulling over this project for a couple of years now. However, it was put on the back burner, as met coke market exploded and the company decided to expand met coke capacity.

Given the attractiveness of the project, the company should simultaneously implement power projects as well. With the strong cash generation from met coke business, the company can support simultaneous execution of both met coke expansion and setting up of power projects.

The company recently said that it plans to set up Waste Heat Cogeneration Power Plants for 50MW [10MW at Jamnagar, 20MW at Kandla and 20MW at Karnataka] in FY06. We have not considered these projects in our estimates and valuation. These projects can substantially add to the company's profits and valuation.

Commissioned 1.25MW wind farm – Project NPV Rs.60mn

GNCL commissioned 1.25MW windfarm setup on turnkey basis by Suzlon Energy at the cost of Rs.55mn at Bhogat in Gujarat. We estimate that the company can save Rs.24mn in power cost per annum with this windfarm. The NPV of the project works out to Rs.60mn.

Forward integration to capture higher value addition & utilize surplus cash

Besides waste-heat co-generation of power, GNCL has also been eyeing forward integration opportunities for a couple of years now. Like power plants, forward integration plans were also put on



back burner due to explosion in met coke market and consequent decision to ramp up met coke capacities.

The company is currently exploring the possibility of acquiring Aparant Iron & Steel Ltd, a Dempo group company based in Goa. Aparant has pig iron capacity of 155,000 TPA, mini blast furnace of 250 cubic meters, and a gas-based captive power plant of 4 MW. Aparant is saddled with high debt, and GNCL wants it to be restructured as a pre-condition to acquisition. Aparant's plant, built and commenced at the cost of Rs.1.1bn in Oct-2001, is currently closed for maintenance. The deal size is being pegged at Rs.400-450mn.

GNCL's customers can not backward integrate into met coke

Many of GNCL's customers are small foundries. Nature of foundries business is such that there are no scale economies. Therefore, there is a large number of small units all over the country. These are likely to remain fragmented. Their individual consumption is not large enough for them to backward integrate into met coke. For many of them, even imports are not viable on their own. These units are dependent on merchant Coke plants like GNCL. We estimate the current met coke demand from foundries at over 4 million ton per annum. Compare this with GNCL's target capacity of 1 million ton by the end of Dec-05 and you know the growth potential in met coke business.

GNCL sells approximately half of its current production on annual contract basis to companies like Hindustan Zinc, Nirma, and Hindustan Organic Chemicals. Chemical and zinc units' met coke consumption is over half a million ton at present. Most of these chemical and zinc units are in west and north – closer to GNCL's existing plant at Jamnagar and new plant at Kutch.

Seeding export market for met coke

It exported 21,000 MT met coke worth Rs.350mn to CSN Brazil in July-04. This was company's first export sales. The company made the export despite huge demand and shortage of met coke in the domestic market. It's preparing for the scenario when there is slack in domestic capacity. The slack can then be used for export markets.

Very low capital cost of coke plants is the key source of competitive advantage for India. Capital cost of setting up coke ovens in India is lower than that in the US, Europe, and China. In terms of running cost, China has an edge over India. Australia, which is the largest exporter of coking coal, produces very limited quantity of met coke due to pollution problem.

Raw material inventory holding period to fall substantially

Raw material inventory had gone up substantially in recent years from the normal 80-90 days to 106 days in YE Sep-02 to 170 days in YE Sep-03. The key raw material coking coal is entirely imported and the minimum economic import size is 45,000 MT. With the substantial rise in capacity and production, coking coal consumption and import requirement will also rise in tandem. This implies that the consumption duration of 45,000 MT will now be significantly reduced and therefore the raw material inventory holding period will come down substantially. We estimate it to come down to 96 days in Sep-04, 34 days in Sep-05, and 26 days in Sep-06.

Number of days' sales outstanding and finished goods inventory holding period may also fall given the sellers' market conditions in the met coke market. We have, however, not assumed any improvement on these counts in our projections.

Risks / Concerns

Promoters do not seem to share our optimism on the company

The company promoters have reduced their stake significantly by way of sale in the open market of the company's shares and also shares of one or more promoter companies. The direct shareholding has been reduced from 71.73% at end Sep-03 to 55.78% at end Jun-04. The promoters have also reduced their holding in FCGL Industries Ltd, one of the promoters of Gujarat NRE Coke Ltd, by 12% (56.44% at end Jun-04 to around 34% at present). FCGL Industries has no other significant business,



assets, or liabilities. It just owned 43,15,462 shares in GNCL at end Jun-04. NAV per share of FCGL at present is Rs.57. Promoters have sold shares of FCGL at Rs.8-9 and then at Rs.12-13 recently. Each share of FCGL is worth 0.86 share of GNCL.

This implies that the promoters are not as optimistic about this company as we are. There is probably something that promoters know but we do not. Here lies the risk of unknown.

Promoters have been on a selling spree since Oct-02 with bulk of the selling during QE Dec-03. In this quarter, the promoters' stake came down from 70.71% to 59.97%.

The stock price ranged between Rs.11 and Rs.37 during QE Dec-03. The stock price is now double the closing price of Rs.33 at the end of the quarter. This implies that promoters either failed to see the value in their own company or saw a greater value elsewhere.

Rapid expansion in Met Coke capacity

A many-fold rise in met coke price lately has many companies chalk out plans for setting up met coke capacity or expansion therein. These capacities will start commissioning from next year onwards. We, therefore, see pricing pressure on met coke in YE Sep-05 and YE Sep-06. As mining of coking coal is also being planned to be raised substantially, we do not expect margins to be impacted substantially. However, there are likely to be short periods where the interplay of demand-supply scenario of met coke and coking coal might put greater pressure on met coke margins.

Konark Met Coke Ltd, subsidiary of Nilanchal Ispat Nigam Ltd, restarted production of met coke in July-04. It has capacity of 0.8 million TPA.

Other Met Coke plants being planned in India

Firm	Capacity (TPA)	Cost	Location	Status
TISCO (in JV with WBIDC)	4.32 (Initial capacity 0.8 TPA with 55MW CGPP)	Rs.6bn	Haldia (WB)	Land was not purchased till mid Jul-04. It will take 18 months from the start of construction.
Shriram Group	2.5			Feasibility report was supposed to be ready by Apr-04. It can not be commissioned before end 2005.
BHP Billiton	2		Orissa	Proposed
JVSL (Euro Coke)	Coke-cum-CGPP	Rs.2.13bn	Toranagal, Karnataka	
Mangalore Chemicals	Coke-cum-CGPP	Rs.3.6bn	Karnataka	
Jindal Steel & Power	0.8			
Saurashtra Fuels	0.384			
Sathvahana Ispat	0.3 (with 30 MW CGPP)	Rs.1.75bn		18 months from financial closure. FC not yet done.
Electrosteel Castings	0.15			Commissioning delayed from Aug-04 to Jan-05

CGPP – Co-Generation Power Plant

Global Steel Cycle

Global steel cycle is currently on the upswing. The turn of the cycle causing lower steel demand will lead to lower met coke demand and realizations. This is likely to put significant pressure on profitability. However, if the company's power projects commissioning coincides with the turn of the cycle, profit from power projects will eclipse fall in profits from met coke. We are of the opinion that the company should begin work on power projects using waste heat gases on a priority basis. In any case, we do not see any significant risk over the next two years from global steel cycle.



Met coke and coking coal prices are key determinants of profits

GNCL's profits are highly sensitive to prices of met coke and coking coal. Easing of met coke market coupled with hardening of coking coal market can be disastrous for the company. We expect this scenario to unfold in the YE Sep-05. GNCL, however, will come unscathed due to an estimated 180% jump in production in the YE Sep-05 and fixed coking coal contract for the year. Though EBITDA margin is likely to fall from 41% in YE Sep-04 to 25% in YE Sep-05; EBITDA is likely to grow 54% to over Rs.2bn. We, however, do not see such scenario sustaining for long given that global mining majors are planning to ramp up mining of coking coal. We estimate met coke average realizations in YE Sep-05 to fall 12.5% to around Rs.11,000 per ton. We estimate the coking coal cost per tone at \$111 for GNCL in YE Sep-05 based on forecasts by Citigroup, RBC Capital, and McCloskey. The cost is inclusive of freight and other import costs.

Fall in prices of both met coke and coking coal will also lead to decrease in profits. This is the most likely scenario for YE Sep-06. We estimate 15% fall in met coke spot prices and 20% fall in coking coal spot prices in YE Sep-06. The 15% fall in met coke price follows 12.5% fall in the previous year. Our estimates are based on planned capacity additions, planned increase in mining, their scheduled commissioning, and projected demand scenario for global steel. Even in YE Sep-06, we estimate EBITDA to rise 19% despite fall in value addition due to 30% rise in production volume.

Ownership and Management

The company is owned by Mr. A K Jagatramka, his family, friends, associates, and relatives. Mr. Jagatramka is a gold medalist chartered accountant and has been a merchant banker before he took control of the management from his brother-in-law, who has been in control of the management till 1996-97. Mr. Jagatramka is the only executive director and sole public face of the company.

Promoters' stake in the company was 55.78% at end Jun-04, down from 71.73% at end Sep-03. In addition to the direct reduction in stake, there has been indirect reduction in stake by way of reduction of stake in one or more promoter companies. FCGL Industries is one of the promoters of Gujarat NRE Coke Ltd. Promoters have reduced their stake in FCGL Industries from 46.44% at end Jun-04 to around 34% at present.

Valuation and key underlying assumptions

We estimate discounted cash flow value per stock at around Rs.172 at 18% cost of equity (Rs.208 at 15% CoE). At the current price of Rs.66, the stock offers significant appreciation potential. The company's likely free cashflows to equity over the next four years is equal to its current market capitalization. This implies that you are not paying for some uncertain cashflows in distant future but relatively certain cashflows over the next four years. Cashflows include share in cashflows of Bharat NRE Coke Ltd, the joint venture company with Kalyani Steels.

We have not taken into account NPV of power plants and forward integration projects, as these are not yet firmed up. Nor have we considered option value of estimated surplus cash of over Rs.3bn by the end of Sep-07.

At the current price of Rs.66, the stock trades at 3.2x estimated EPS for YE Sep-04, 2.5x estimated EPS for YE Sep-05 and just 1.3x estimated book value at the end of Sep-05.



Income Statement (Consolidated)

<i>Rs. Mn.</i>	<i>Sep-04E</i>	<i>Sep-05P</i>	<i>Sep-06P</i>
<i>No. of months:</i>	<i>12</i>	<i>12</i>	<i>12</i>
Revenues	3,256	7,942	8,773
EBIT	1,305	1,957	2,337
PBT	1,304	1,994	2,420
Adj. PAT	976	1,264	1,535
Fully Diluted EPS (Rs.)	20.70	26.81	32.54

Ratios

<i>No. of months:</i>	<i>Sep-04E</i>	<i>Sep-05P</i>	<i>Sep-06P</i>
	<i>12</i>	<i>12</i>	<i>12</i>
Revenue Growth %	140.7	148.0	8.0
EPS Growth %	70.8	29.5	21.4
RoE %	91.6	60.6	47.5
D/E x	0.0	0.0	0.0
Receivables days	33	33	33
Inventory days - FG	15	15	15
-- RM	96	34	26
Payables (days)	90	90	90

Balance Sheets

<i>Rs. Mn.</i>	<i>Sep-04E</i>	<i>Sep-05P</i>	<i>Sep-06P</i>
Assets			
Net Block	847	2,166	2,326
Investments	0	0	0
Net Current Assets	684	481	1,641
Liabilities			
Equity Capital	472	472	472
Reserves	984	1,994	3,219
Preference Capital	0	0	0
Debt	0	0	0
Non-Current Liab.	76	183	276

Quarterly

<i>Rs. Mn.</i>	<i>Sep-04E</i>	<i>Sep-03</i>	<i>Var</i>
<i>No. of months:</i>	<i>3</i>	<i>3</i>	<i>%</i>
Net Revenues	1,300	407	219.7
EBITDA	475	66	625.0
Depreciation	13	5	
EBIT	462	61	661.7
Interest	3	3	
Other Income	3	3	
PBT	463	61	659.5
Tax	116	5	
PAT	347	56	515.7
Equity Capital	472	264	78.9
EPS –annualised (Rs.)	29.43	8.55	244.2

Quarterly Ratios

<i>%</i>	<i>Sep-04E</i>	<i>Sep-03</i>	<i>Bps</i>
<i>No. of months:</i>	<i>3</i>	<i>3</i>	<i>Chg.</i>
EBITDA / Sales	40.9	14.5	+2640
EBIT / Sales	39.8	13.4	+2640
Tax/PBT	25.0	7.5	
Material cost/sales	53.6	80.2	-2660
Staff cost/sales	5.5	5.4	+20

Multiple Valuation

	<i>Sep-04E</i>	<i>Sep-05P</i>	<i>Sep-06P</i>
EV/EBITDA x	2.5	1.6	1.4
EV/EBIT x	2.5	1.7	1.4
Mkt. Cap/Sales x	0.95	0.38	0.35
P/E x	3.2	2.5	2.0
Price/Book x	2.1	1.3	0.8

Free Cash Flow

<i>Rs. Mn.</i>	<i>Sep-04E</i>	<i>Sep-05P</i>	<i>Sep-06P</i>
<i>No. of months</i>	<i>12</i>	<i>12</i>	<i>12</i>
NOPLAT	977	1,241	1,482
Change in Net Working Capital	255	(209)	(50)
Operating Cash Flows	722	1,449	1,532
Net Capex & others	420	1,213	67
Free Cash Flow	302	237	1,465
Non-opr. Cash flow	8	23	53
Cash Flow to Investors	310	260	1,518

Financing Cash Flow

<i>Rs. Mn</i>	<i>Sep-04E</i>	<i>Sep-05P</i>	<i>Sep-06P</i>
<i>No. of months:</i>	<i>12</i>	<i>12</i>	<i>12</i>
Post-tax Interest	9	0	0
Repayment/ (issue) of Debt	73	0	0
Equity Share	35	196	254
Dividend			
Buyback/Redn/ (issue) of equity shares	(197)	0	0
Increase in excess cash	390	64	1,264
Financing Cash Flow	310	260	1,518

DCF Valuation

	<i>Rs. Mn.</i>	<i>%</i>
<i>Key Assumptions</i>		
Terminal Growth Rate		1.0
WACC		18.0
Cost of Equity		18.0
<i>DCF Valuation</i>		
NPV YE Sep-04 to YE Sep-07	2,736	
NPV Terminal Cash Flows	5,599	
PV of non-operating assets	129	
Contingent Liabilities @ 100%	9	
Enterprise Value	8,454	
Debt, Pref. Cap, PV of NCL	322	
Equity Value	8,132	
<i>Fair Value Range (Rs.)</i>	145-190	
Per share Value (Rs.)	172	
Stress Value per share (Rs.)	96	



Important Disclosure

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