



INDIA

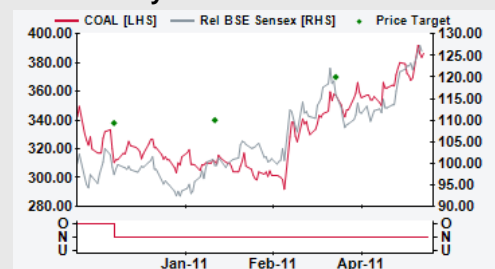
COAL IN Neutral
Price 25 May 11 Rs377.00

12-month target	Rs	382.00
Upside/Downside	%	1.3
Valuation	Rs	382.00
- DCF		
GICS sector		Energy
Market cap	Rsbm	2,381
30-day avg turnover	US\$m	10.4
Market cap	US\$m	52,665
Number shares on issue	m	6,316

Investment fundamentals

Year end 31 Mar		2011A	2012E	2013E	2014E
Revenue	bn	514.9	600.4	677.7	755.4
EBITDA	bn	134.6	165.0	172.5	213.1
EBITDA growth	%	31.5	22.6	4.5	23.5
Reported profit	bn	109.3	140.2	159.0	194.2
EPS rep	Rs	17.30	22.19	25.18	30.74
EPS rep growth	%	12.8	28.3	13.5	22.1
PER rep	x	21.8	17.0	15.0	12.3
Total DPS	Rs	3.64	3.32	5.84	6.16
Total div yield	%	1.0	0.9	1.5	1.6
ROA	%	15.5	17.2	15.5	16.4
ROE	%	35.5	34.7	30.0	28.8
EV/EBITDA	x	14.5	11.8	11.3	9.1
Net debt/equity	%	-127.3	-104.5	-104.3	-104.3
P/BV	x	7.0	5.1	4.0	3.2

COAL 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, May 2011
(all figures in INR unless noted)

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26 May 2011
Macquarie Capital Securities India (Pvt)
Ltd

Coal India

Good, will peak in 1Q

Event

- **4Q FY11 results beats estimates:** Coal India (CIL) reported extremely strong earnings for 4Q FY11, helped by higher despatches and strong prices. We expect even better performance in 1Q FY12 as full benefit from the recent price hikes should be seen while cost increases only from 2Q. We recommend investors book profits in the run-up to the results and wait for a better entry point later. Maintain Neutral.

Impact

- **Strong FY11 results:** CIL reported net sales of Rs515bn with sales of 425mnt, up 2% YoY and realisations up 5% YoY. EBITDA at Rs135bn was up from Rs102bn reported last year, up 32% YoY. PAT was reported at Rs109bn, up 13% from FY10.
- **Margin increase extraordinary:** CIL reported close to US\$10/t at the EBITDA level, a sharp increase from US\$6.5/t reported until 3Q. It was helped by an increase in realisation in end-February and also by possibly higher e-auction prices. We are building US\$8.5/t for FY12E.
- **Wage cost pressures to be aggravated:** Coal India's profitability has increased 100% from FY07. This, along with high inflation, means that labour unions can bargain for a higher than 25% raise and settlement can be prolonged. Currently, wages are 50% of the cost, and every 10% increase is an 11% decline in profits.
- **Volumes – have upside risk:** We are building in sales volume of 450mnt against management guidance of production of 447mnt. However, Coal India is sitting on close to 70mnt of inventory, which can be brought down to the normalised level of 40–45mnt. For every 10mnt increase in sales volume its profits can increase by 2.5%.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs382.00 based on a DCF methodology.
- Catalyst: Increase in despatches and further price increase.

Action and recommendation

- **Maintain Neutral:** Coal India has seen a significant increase in its profitability, much ahead of everyone's expectations. As its profitability reaches normalised levels, we think the premium valuation that Coal India attracts will see a decline. We maintain our Neutral rating and recommend that investors look to add on declines as CIL profitability likely retracts post 1Q results.

Extremely strong numbers

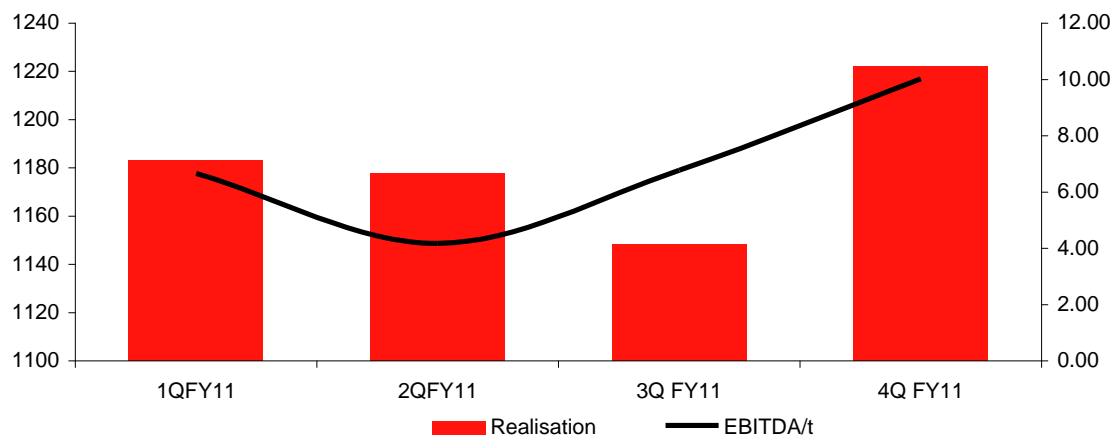
Fig 1 Strong results – helped by seasonality

		FY11	FY10	QoQ (%)
Production	mt	431.2	431.3	16%
Despatches	mt	425.1	415.5	3%
Price	Rs/t	1,182	1,124	6%
Cost	Rs/t	894	894	3%
Net Sales	Rsbn	514,868	473,606	19%
Total expenditure	Rsbn	380,249	371,243	6%
EBITDA	Rsbn	134,619	102,363	54%
Margin	Rs/t	317	246	49%
Depreciation	Rsbn	16,729	13,138	14%
EBIT	Rsbn	117,890	89,225	59%
Interest	Rsbn	619	1,365	-211%
Other Income	Rsbn	47,960	52,408	-9%
PBT	Rsbn	165,231	140,268	40%
Tax	Rsbn	55,959	43,425	9%
PAT	Rsbn	108,670	96,307	61%

Source: Company data, Macquarie Research, May 2011

Increase in realisations helped margins during the quarter

Fig 2 Margin increase helped by increase in prices – we are building in margin of \$8.5/t for FY12E



Source: Macquarie Research, May 2011

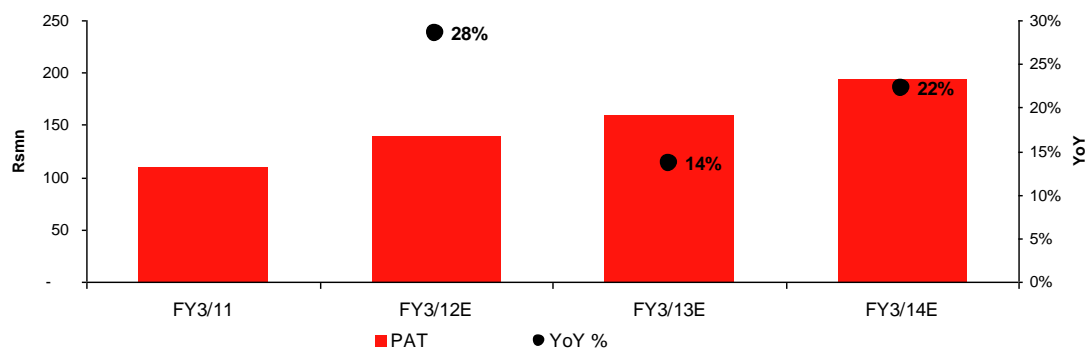
Wage cost pressures to be aggravated

Fig 3 Wage renegotiations to start for non-executives in July 2011

Category	Coal India	Details
Executive	15,092	Determined by GOI and fixed for 10 years, due for negotiations in Jan, 2017
M/Rated	81,643	
D/Rated	256,046	Governed by National Coal Wage Agreement which is to be negotiated in July 2011 for next 5 years
P/Rated	40,898	
Casual	132	
Badli	234	
Co(T)	3,093	
TOTAL	397,138	

Source: Company data, Macquarie Research, May 2011

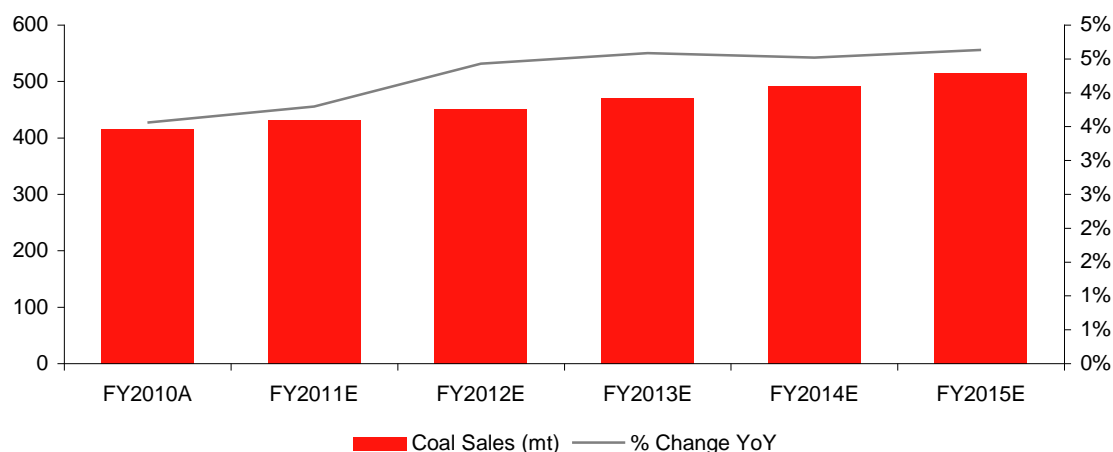
Fig 4 Increasing profitability will increase expectations of higher wage increase



Source: Company data, Macquarie Research, May 2011

Increase in sales volume – if inventory can be sold

Fig 5 We are estimating sales volume of 450mt next year



Source: Company data, Macquarie Research, May 2011

Coal India (COAL IN, Neutral, Target Price: Rs382.00)

Quarterly Results					Profit & Loss						
	4Q/11A	1Q/12E	2Q/12E	3Q/12E		2011A	2012E	2013E	2014E		
Revenue	m	144,163	120,084	150,105	162,114	Revenue	m	514,868	600,421	677,682	755,372
Gross Profit	m	37,693	33,001	41,251	44,551	Gross Profit	m	134,619	165,003	172,504	213,122
Cost of Goods Sold	m	106,470	87,084	108,855	117,563	Cost of Goods Sold	m	380,249	435,418	505,178	542,250
EBITDA	m	37,693	33,001	41,251	44,551	EBITDA	m	134,619	165,003	172,504	213,122
Depreciation	m	4,182	4,362	4,362	4,362	Depreciation	m	16,729	17,447	19,362	21,277
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	33,511	28,639	36,889	40,189	EBIT	m	117,890	147,556	153,143	191,845
Net Interest Income	m	11,835	15,338	15,338	15,338	Net Interest Income	m	47,341	61,352	83,936	97,674
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	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	45,346	43,977	52,227	55,527	Pre-Tax Profit	m	165,231	208,908	237,078	289,519
Tax Expense	m	-13,990	-17,185	-17,185	-17,185	Tax Expense	m	-55,959	-68,741	-78,037	-95,343
Net Profit	m	31,357	26,792	35,042	38,342	Net Profit	m	109,272	140,167	159,041	194,177
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	31,357	26,792	35,042	38,342	Reported Earnings	m	109,272	140,167	159,041	194,177
Adjusted Earnings	m	31,357	26,792	35,042	38,342	Adjusted Earnings	m	109,272	140,167	159,041	194,177
EPS (rep)		4.96	4.24	5.55	6.07	EPS (rep)		17.30	22.19	25.18	30.74
EPS (adj)		4.96	4.24	5.55	6.07	EPS (adj)		17.30	22.19	25.18	30.74
EPS Growth yoy (adj)	%	14.9	30.1	28.3	27.8	EPS Growth (adj)	%	12.8	28.3	13.5	22.1
						PE (rep)	x	21.8	17.0	15.0	12.3
						PE (adj)	x	21.8	17.0	15.0	12.3
EBITDA Margin	%	26.1	27.5	27.5	27.5	Total DPS		3.64	3.32	5.84	6.16
EBIT Margin	%	23.2	23.8	24.6	24.8	Total Div Yield	%	1.0	0.9	1.5	1.6
Earnings Split	%	28.7	19.1	25.0	27.4	Weighted Average Shares	m	6,316	6,316	6,316	6,316
Revenue Growth	%	8.7	16.6	16.6	16.6	Period End Shares	m	6,316	6,316	6,316	6,316
EBIT Growth	%	32.1	25.9	25.2	24.9						
Profit and Loss Ratios					Cashflow Analysis						
	2011A	2012E	2013E	2014E		2011A	2012E	2013E	2014E		
Revenue Growth	%	8.7	16.6	12.9	11.5	EBITDA	m	134,619	165,003	172,504	213,122
EBITDA Growth	%	31.5	22.6	4.5	23.5	Tax Paid	m	0	0	0	0
EBIT Growth	%	32.1	25.2	3.8	25.3	Chgs in Working Cap	m	1,540	-43,116	25,233	20,388
Gross Profit Margin	%	26.1	27.5	25.5	28.2	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	26.1	27.5	25.5	28.2	Other	m	-15,395	-7,571	5,517	1,950
EBIT Margin	%	22.9	24.6	22.6	25.4	Operating Cashflow	m	120,763	114,316	203,254	235,460
Net Profit Margin	%	21.2	23.3	23.5	25.7	Acquisitions	m	0	0	0	0
Payout Ratio	%	21.0	15.0	23.2	20.1	Capex	m	-30,000	-46,500	-40,000	-35,000
EV/EBITDA	x	14.5	11.8	11.3	9.1	Asset Sales	m	0	0	0	0
EV/EBIT	x	16.5	13.2	12.7	10.1	Other	m	0	0	0	0
						Investing Cashflow	m	-30,000	-46,500	-40,000	-35,000
Balance Sheet Ratios						Dividend (Ordinary)	m	-22,967	-20,963	-36,908	-38,936
ROE	%	35.5	34.7	30.0	28.8	Equity Raised	m	0	0	0	0
ROA	%	15.5	17.2	15.5	16.4	Debt Movements	m	-5,953	-5,420	-5,221	-221
ROIC	%	-80.4	-106.1	-485.4	-499.5	Other	m	0	0	0	0
Net Debt/Equity	%	-127.3	-104.5	-104.3	-104.3	Financing Cashflow	m	-28,920	-26,383	-42,129	-39,156
Interest Cover	x	nmf	nmf	nmf	nmf						
Price/Book	x	7.0	5.1	4.0	3.2	Net Chg in Cash/Debt	m	61,843	41,433	121,125	161,304
Book Value per Share		54.2	73.9	93.9	119.5	Free Cashflow	m	90,763	67,816	163,254	200,460
					Balance Sheet						
	2011A	2012E	2013E	2014E		2011A	2012E	2013E	2014E		
Cash	m	458,573	505,427	631,773	793,297	Cash	m	458,573	505,427	631,773	793,297
Receivables	m	30,256	28,020	31,230	33,824	Receivables	m	30,256	28,020	31,230	33,824
Inventories	m	55,856	56,041	62,460	67,647	Inventories	m	55,856	56,041	62,460	67,647
Investments	m	10,637	10,637	10,637	10,637	Investments	m	10,637	10,637	10,637	10,637
Fixed Assets	m	118,581	141,134	161,772	165,495	Fixed Assets	m	118,581	141,134	161,772	165,495
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	140,064	163,310	176,595	197,329	Other Assets	m	140,064	163,310	176,595	197,329
Total Assets	m	813,967	904,569	1,074,467	1,268,229	Total Assets	m	813,967	904,569	1,074,467	1,268,229
Payables	m	448,727	420,307	468,453	507,355	Payables	m	448,727	420,307	468,453	507,355
Short Term Debt	m	0	0	0	0	Short Term Debt	m	0	0	0	0
Long Term Debt	m	22,775	17,773	12,773	5,853	Long Term Debt	m	22,775	17,773	12,773	5,853
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	0	0	0	0	Other Liabilities	m	0	0	0	0
Total Liabilities	m	471,502	438,080	481,226	513,208	Total Liabilities	m	471,502	438,080	481,226	513,208
Shareholders' Funds	m	333,172	457,195	583,947	738,807	Shareholders' Funds	m	333,172	457,195	583,947	738,807
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Other	m	9,294	9,294	9,294	16,214	Other	m	9,294	9,294	9,294	16,214
Total S/H Equity	m	342,466	466,489	593,240	755,020	Total S/H Equity	m	342,466	466,489	593,240	755,020
Total Liab & S/H Funds	m	813,968	904,569	1,074,467	1,268,228	Total Liab & S/H Funds	m	813,968	904,569	1,074,467	1,268,228

All figures in INR unless noted.

Source: Company data, Macquarie Research, May 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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