

Coal India

New price list suggests large increases, larger hikes for non power; however, lack of grade wise data reduces clarity - ALERT

- **New price list for GCV coal suggests large price increases against old list, larger hikes for non power sector:** COAL has finally released the new price list for the new GCV pricing mechanism ([for more details please see our report published yesterday](#)). There are now 17 slabs with 300kcal difference. **The first interesting point is the higher prices for non power sector users as the grade of coal reduces.** Against last year's price increase, in which a constant 30% higher price for non power sector was implemented, in the latest price sheet, **the non power sector's coal price is between 42-60% higher for the lower grade coals (GCV below 4600, Grade E -G on the old scale). For the higher grade coals (GCV between 4800-5800, Grades C & D), the non power sector coal prices are 17-33% higher than power sector.** Essentially, it implies larger cost increases for sectors like cement and aluminum.
- **For the power sector, prima facie price increase of 5-14%, but lack of grade wise data makes it difficult to assess financial impact:** Taking the average price of the Grade E and F equivalent slabs under the new pricing mechanism suggests price increase of 5-14% for the power sector. Grade E & F, in our view, account for ~65% of coal production for COAL and a relatively larger proportion of the FSA coal sales. **The lack of grade wise production makes assessing the financial impact on COAL's revenues and profitability difficult. In our view, the incremental revenue impact could be as much as 8% (implying a price increase of 8%). We believe the actual impact would likely be known only in a couple of months when the users of coal get the coal under new prices.**
- **Higher and earlier than expected price increase by COAL highlights risk of larger-than-expected wage bill hike:** COAL has essentially implemented a price hike under the new GCV based pricing mechanism. In our report in Dec-11 ([Coal India: FY12 production target cut not surprising, but lack of clarity on critical issues remains a negative](#)), we had highlighted that a price hike is likely over the next 3-6 months, and to that extent the price increase is earlier than estimated. In our view, this increases the risk of larger-than-expected wage increase (we currently estimate 24% wage hike).
- **Large price increases over last 13 months, specially for non power sector, increases regulatory risk of opening up the coal sector:** COAL has been able to implement large price increases, **specially for the non power sector (cement, aluminum, steel) and we estimate coal prices (including the latest increase) for these sectors have increased by + 50% over the last 13 months, while power sector prices have increased by a lower amount.** While this is positive for COAL, we believe it also sharply increases the regulatory risk of liberalization of coal mining in India, particularly allowing captive coal block owners to sell coal in India.

Underweight

COAL.BO, COAL IN

Price: Rs312.15

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Metals & Mining

Pinakin Parekh, CFA ^{AC}

(91-22) 6157-3588
pinakin.m.parekh@jpmorgan.com

Neha Manpuria

(91-22) 6157-3589
neha.x.manpuria@jpmorgan.com

J.P. Morgan India Private Limited

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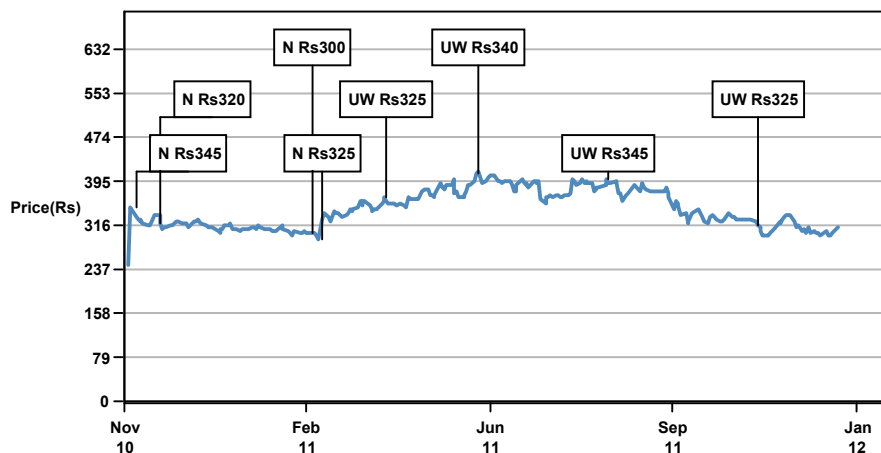
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Coal India (COAL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
08-Nov-10	N	349.85	345.00
23-Nov-10	N	320.15	320.00
21-Feb-11	N	302.35	300.00
28-Feb-11	N	292.65	325.00
07-Apr-11	UW	366.45	325.00
01-Jun-11	UW	408.45	340.00
18-Aug-11	UW	397.90	345.00
15-Nov-11	UW	317.15	325.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Initiated coverage Nov 08, 2010.

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