

UPDATE

LARGE CAP

Share Data

Reuters code	COAL.BO
Bloomberg code	COAL IN
Market cap. (US\$ mn)	42,974
6M avg. daily turnover (US\$ mn)	32
Issued shares (mn)	6,316
Target price (Rs)	436

Performance (%)	1M	3M	12M
Absolute	(11)	(15)	0
Relative	(10)	(3)	0

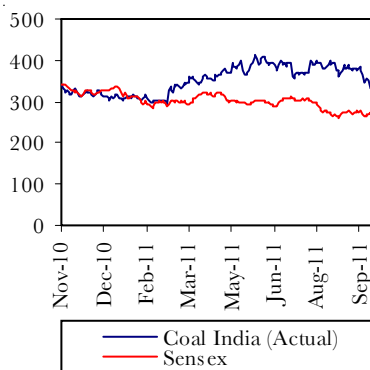
Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	22.4	25.9
+/- (%)	30.0	15.9
PER (x)	14.9	12.9
PBV (x)	5.0	4.1
Dividend/Yield (%)	2.0	2.3
EV/Sales (x)	2.5	2.2
EV/EBITDA (x)	9.1	7.6

Major shareholders (%)

Promoters	90
FII's	6
MF's	1
Public & Others	3

Relative performance



Coal India

Maintain BUY

Price: Rs 333

BSE Index: 16,454

30 September 2011

Mining Bill approval by the Cabinet – 11-21% impact on FY13E EPS

The Cabinet today approved the Mines and Mineral Development and Regulation (MMDR) Bill and will now be tabled to the Standing Committee and the Parliament to be passed as an Act. Group of Ministers (GOM) had approved the MMDR Bill on 08 July 2011. One of the key proposal in the MMDR Bill is 26% profit sharing by coal miners with the local population of the district in which the coal mine is located.

Though, currently, it is only a draft proposal and is yet to be notified (to be tabled in the Parliament during the ensuing winter session), we, in this note, try to ascertain implications of this development on Coal India:

- Coal India incurred ~4% of the revenue and ~29% of the core PAT in FY11 towards social causes (termed as social overhead cost in its expense statement).
- **Going forward, Coal India might not provide for social overhead cost and instead adjust these costs below PAT. Though clarity on this front is expected. Coal India already spends on hospitals, schools, development centres and other activities and has incurred substantial capex to develop these facilities. Hence, Coal India cannot stop at least bulk of the current CSR spending and start contributing in lieu to the district magistrate's fund as proposed in MMDR Bill.**
- **Hence, if there is no set off of the current social overhead spending with the 26% profit sharing proposed in MMDR Bill, CIL will be badly impacted.**
- Our interaction with the industry experts suggest that the current draft may see some modifications. If the Bill is passed in its current state, it might incentivise coal miners to manipulate cost structure. They are of the view that instead of net profits, a percentage share of sales prices per tonne might be proposed which is more appropriate.
- Further, Coal India might go for a price hike on account of wage revision and to factor in this incremental cost in FY13.

According to the Ministry of Coal, it would benefit the company in the long run, as the land acquisition and rehabilitation of the locals would be more convenient.

We have analysed our estimates based on three different scenarios:

Base Case: Our current estimates (no profit sharing, royalty goes up and CIL hikes prices to pass-on the impact). In the base case, we estimate a **EPS of Rs 25.9 for CIL in FY13** and a target price of Rs 436 based on 9x EV/EBITDA.

Case I: CSR expenditure is set off against 26% sharing of core profits. In case I, if we offset the CSR expenses against the 26% profit sharing the **impact on EPS is 11.6% to Rs 22.9** and the target price reduces to Rs 418.

Case II: CSR expenditure remains and CIL is forced for 26% sharing of core profits. If we do not offset the CSR expenses the EPS is **impacted by 21.4% to Rs 20.4**, the target price comes down to Rs 379.

B&K's view

We hope instead of the 26% profit sharing mechanism the GoI places an ad valorem duty on per tonne of coal sold which would lead to the miners not being enticed to manipulate the profits. Also, it will be easier to ascertain that every miner is appropriately contributing to the social fund. We currently maintain our Buy rating on the stock and maintain our target price of Rs 436 per share based on 9x FY13E EBITDA.

Clarity on the following points is expected:

- Whether the existing spending on CSR activities will be deductible from the 26% profit sharing proposed by MMDR Bill.
- How will the core profits be calculated. Whether it will be on the core profits of each subsidiary or mine-wise and what expenditures will be permitted and how will the common expenditures be allocated.
- The time line for implementing the bill.
- Checks and balances for prudent accounting by the miners.

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	466,843	526,162	658,670	750,790
<i>Growth (%)</i>	<i>13.5</i>	<i>12.7</i>	<i>25.2</i>	<i>14.0</i>
Operating expenses	(361,483)	(391,371)	(476,001)	(532,863)
Operating profit	105,360	134,791	182,669	217,926
EBITDA	105,360	134,791	182,669	217,926
<i>Growth (%)</i>	<i>276.0</i>	<i>27.9</i>	<i>35.5</i>	<i>19.3</i>
Depreciation	(13,295)	(16,729)	(17,966)	(20,140)
Other income	49,006	47,963	50,521	51,427
EBIT	141,072	166,025	215,224	249,214
Interest paid	(886)	(791)	(1,243)	(1,243)
Pre-tax profit	140,186	165,234	213,981	247,971
(before non-recurring)				
Pre-tax profit	140,186	165,234	213,981	247,971
(after non-recurring)				
Tax (current + deferred)	(43,425)	(55,959)	(72,733)	(84,286)
Net profit (before Minority Interest, Pref. Dividend, etc.)	96,761	109,275	141,249	163,685
Prior period adjustments	(537)	(602)	0	0
Reported PAT	96,224	108,674	141,249	163,685
Adjusted net profit	96,224	108,674	141,249	163,685
<i>Growth (%)</i>	<i>364.1</i>	<i>12.9</i>	<i>30.0</i>	<i>15.9</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Cash & marketable securities	390,778	458,623	450,800	489,014
Other current assets	152,466	185,337	237,096	269,659
Investments	12,821	10,637	10,637	10,637
Net fixed assets	142,416	150,610	178,644	208,504
Other non-current assets	9,660	8,732	8,732	8,732
Total assets	708,141	813,939	885,908	986,547
Current liabilities	413,825	448,725	434,618	435,864
Total debt	20,869	15,536	15,536	15,536
Other non-current liabilities	14,774	16,214	18,214	20,214
Total liabilities	449,468	480,475	468,367	471,614
Share capital	63,164	63,164	63,164	63,164
Reserves & surplus	195,289	270,008	354,051	451,444
Less: Misc. expenditure	(15)	(34)	0	0
Shareholders' funds	258,437	333,138	417,215	514,608
Minorities interests	236	326	326	326
Total equity & liabilities	708,141	813,939	885,908	986,547
Capital employed	294,316	365,214	451,290	550,683

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Pre-tax profit	140,186	165,234	213,981	247,971
Depreciation	13,295	16,729	17,966	20,140
Change in working capital	38,608	3,471	(63,866)	(29,317)
Total tax paid	(43,815)	(55,033)	(72,733)	(84,286)
Cash flow from oper. (a)	148,274	130,400	95,349	154,507
Capital expenditure	(19,804)	(17,832)	(46,000)	(50,000)
Change in investments	2,230	2,184	0	0
Others	(6,515)	(7,109)	34	0
Cash flow from inv. (b)	(24,088)	(22,756)	(45,966)	(50,000)
Free cash flow (a+b)	124,186	107,644	49,383	104,507
Debt raised/(repaid)	(616)	(5,333)	0	0
Dividend (incl. tax)	(29,871)	(31,085)	(57,206)	(66,292)
Others	129	(3,381)	(10,059)	0
Cash flow from fin. (c)	(30,358)	(39,799)	(67,264)	(66,292)
Net chg in cash (a+b+c)	93,828	67,845	(17,882)	38,215

Key Ratios

Yr end 31 Mar (%)	FY10	FY11	FY12E	FY13E
Adjusted EPS (Rs)	15.2	17.2	22.4	25.9
Growth	364.1	12.9	30.0	15.9
Book NAV/share (Rs)	41.0	52.8	66.1	81.5
Dividend/share (Rs)	3.5	3.5	6.7	7.8
Dividend payout ratio	31.0	28.6	40.5	40.5
Tax	31.0	33.9	34.0	34.0
EBITDA margin	22.6	25.6	27.7	29.0
EBIT margin	30.2	31.6	32.7	33.2
RoCE	54.3	50.3	52.7	49.7
Net debt/Equity	(143.0)	(132.9)	(104.2)	(91.9)

Valuations

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
PER	21.9	19.4	14.9	12.9
PCE	19.2	16.8	13.2	11.4
Price/Book	8.1	6.3	5.0	4.1
Yield (%)	1.1	1.1	2.0	2.3
EV/Net sales	3.8	3.2	2.5	2.2
EV/EBITDA	16.9	12.6	9.1	7.6

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
Net margin (%)	20.6	20.7	21.4	21.8
Asset turnover	0.7	0.7	0.8	0.8
Leverage factor	2.9	2.6	2.3	2.0
Return on equity (%)	42.7	36.7	37.6	35.1

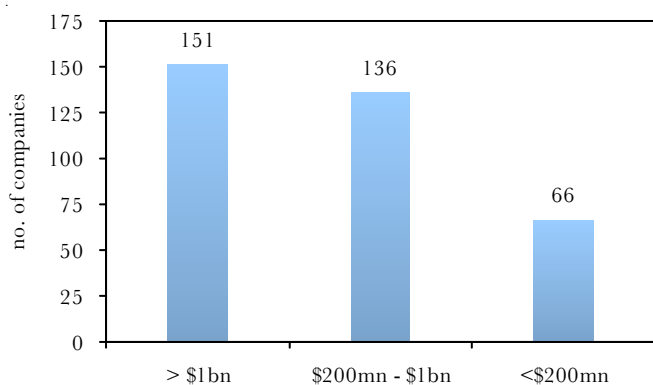
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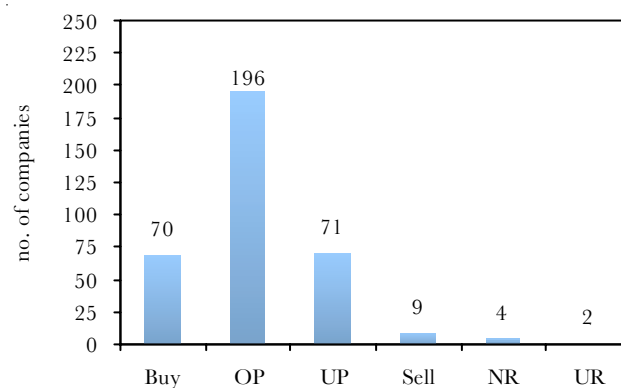
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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