

Mining
March 7, 2011

What has changed?

Rating	Yes
Target price	+20%
Inc / (Dec) in FY12E EPS	+38%
CMP	INR 325
Target Price	INR 370
Upside/ (downside)	+14%
Sensex	18,486

Reuters code	COAL.BO
Bloomberg code	COAL IN
Equity Cap (INR mn)	63,163.6
Face Value (INR)	10.0
No. of shares (mn)	6,316.4
Free float (%)	10.0
Market cap (INR bn)	2,048.1
Market cap (USD bn)	45.5
INR / USD	45.0
52 Wk High/Low (INR)	358 / 245
Avg traded vol (000 shares)*	16,985
Avg trading value (INR mn)*	5,523

* 6 month BSE+NSE average

Index weightage

BSE 500 index	0.80%
BSE PSU index	12.27%

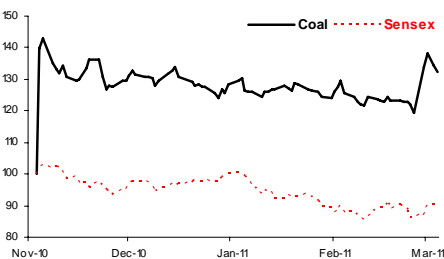
Stock Performance

(%)	3m	6m	1yr
Absolute	0.7	-	-
Rel to BSE	8.1	-	-

Shareholding Pattern (%) Dec 10

Government of India	90.00
Foreign institutional investor	5.54
Domestic institutional investor	1.62
Public & others	2.84

1 yr Price Chart relative to Sensex



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Coal India Ltd
Company Update

Buy on Decline
Target price - INR 370

On February 25th 2011, Coal India (CIL) announced an increase in its coal prices for specific customers and specific grades of coal. There were three sets of increase in coal prices that was announced as given below:

- An increase of c. 30% in thermal coal prices for customers other than power, IPP, fertilizers and defense sectors. Coal India sells approximately 20% of its total thermal coal output to non priority sectors that include steel, cement, aluminium and other captive power producers. We estimate that atleast c. 80 mn MT will be impacted by this price rise.
- Increase in prices of non coking coal from Mahanadi Coalfields Ltd (MCL) to bring it on par with South Eastern Coalfields Ltd (SECL). The price increase is roughly 12% to 24% compared with previous year. MCL produces c. 109mn MT of thermal coal equal to c.25% of total coal production of CIL.
- Increase of Grade A & B non coking coal prices in par with landed international prices. The increases in prices are at c.50% higher compared with FY11.
- Prices of coking coal have also been increased by an average of 12-18% to bring it in line with the market price.

Exhibit 1: Changes in assumptions and impact

INR mn	New		Old	
	FY11E	FY12E	FY11E	FY12E
Sales	534,387	646,819	528,479	574,521
EBITDA	128,008	201,381	122,365	136,351
EBITDA margin (%)	24.0	31.1	23.2	23.7
PAT	104,366	161,556	100,589	117,551
Avg. Coal price (INR/MT)	1,151	1,356	1,137	1,199

Source: Tower Research

The price increase was made just before the current Chairman Mr. Partha Bhattacharya attained his superannuation from his post in CIL on 28th February 2011. The price increase was a surprise as we expected it to happen during June 2011 at the time of wage settlement. We have revised our thermal coal and coking coal prices for FY12E and future years. We have increased our assumptions for manpower costs and other costs to reflect higher costs expected in FY12E. We do not anticipate any price increase in June 2011. We retain our production (c.454mn) and sales numbers to reflect the lower volumes anticipated in FY12E. **We revise our target price from INR 308 to INR 370 due to above changes and revise our rating from 'Neutral' to 'Buy on decline'.**

Valuations and recommendations: International Asian coal miners trade at 10.1x CY11E EV/EBITDA and 7.3x CY12E EV/EBITDA. At CMP of INR 325, CIL trades at 13.0x FY11E EV/EBITDA and 8.3x FY12E EV/EBITDA respectively, c. 14% premium over international peers. Our DCF value for CIL is at INR 424 including INR 361 per share for its coal assets plus INR 63 as cash per share. Considering CIL's superior ROE and improving margins we continue to assign CIL 8.0x FY12E EV/EBITDA at INR 315 per share. **We value CIL at average of DCF (INR 424) and 8x FY12E EV/EBITDA (INR 315) at INR 370 per share. We recommend a 'Buy on decline' on CIL with a target price of INR 370, an upside of c.14%.**

Exhibit 2: Financial snapshot

INR mn	FY 09	FY 10	FY 11E	FY 12E	FY 13E
Sales	408,108	466,843	534,387	646,819	692,987
EBITDA	26,371	104,725	128,008	201,381	218,082
EBITDA margin (%)	6.5	22.4	24.0	31.1	31.5
PAT	20,787	96,224	104,366	161,556	178,030
EPS (INR)	3.3	15.2	16.5	25.6	28.2
P/E (x)	98.5	21.3	19.6	12.7	11.5
EV/EBITDA (x)	67.2	16.0	13.0	8.3	7.6
P/BV (x)	10.8	7.9	6.1	4.5	3.5
RoE (%)	10.9	37.2	31.3	35.9	30.8

Source: Tower Research, Company



Profit and loss account

INR mn	FY09	FY10	FY11E	FY12E
Net Sales	408,108	466,843	534,387	646,819
Expenditure				
Stock adjustment	(1,336)	(6,672)	(2,560)	(3,122)
Internal consumption	19,922	19,721	42,278	45,950
Consumption of stores	48,613	49,269	52,188	56,720
Employee cost	197,421	166,555	181,282	195,785
Power & fuel	15,951	17,396	18,717	20,149
Other expenditure	101,167	115,848	114,473	129,955
Total expenditure	381,737	362,118	406,379	445,437
EBITDA	26,371	104,725	128,008	201,381
Depreciation	16,909	13,295	16,894	15,937
Interest	1,789	1,560	1,774	1,669
Provision & write-off	1,760	2,094	2,094	2,094
Other income	51,196	52,408	48,524	59,447
Prior period adjustment	277	(537)	-	-
PBT	57,387	139,649	155,770	241,128
Tax	36,632	43,425	51,404	79,572
PAT (adjusted)	20,787	96,224	104,366	161,556
FD Equity	6,316	6,316	6,316	6,316
FD EPS	3.3	15.2	16.5	25.6

Balance sheet

INR mn	FY09	FY10	FY11E	FY12E
Share capital	63,164	63,164	63,164	63,164
Reserves and surplus	126,918	195,289	270,508	386,942
Total debt	21,485	20,869	20,869	20,869
Minority interest	20	236	236	236
Shifting & Rehab. fund	12,238	14,774	14,774	14,774
Total liabilities	223,825	294,332	369,550	485,985
Net block	110,088	120,310	123,415	127,478
Capital WIP	18,223	20,909	20,909	20,909
Surveyed assets	972	1,198	1,198	1,198
Investments	15,052	12,821	12,821	12,821
Deferred taxation	9,548	9,658	9,658	9,658
Current assets				
Inventories	36,669	44,018	50,075	54,472
Sundry debtors	18,476	21,686	26,353	31,898
Cash and bank balances	296,950	390,778	461,247	565,017
Loans and advances	117,271	86,762	102,485	124,047
Less: Current liabilities	399,423	413,825	438,629	461,531
Net working capital	69,942	129,419	201,532	313,903
Total assets	223,825	294,332	369,550	485,985

Cash flow

INR mn	FY09	FY10	FY11E	FY12E
CF from Operations				
PBT	57,387	139,649	155,770	241,128
Depreciation	10,630	6,795	16,894	15,937
Interest (net)	1,789	1,560	1,774	1,669
Other non cash items	20,988	2,894	-	-
Op. profit before WC change	90,794	150,898	174,438	258,734
Working capital changes	54,307	22,290	(1,643)	(8,602)
Income tax paid	(27,907)	(39,990)	(51,404)	(79,572)
Net CF from operations	117,194	133,198	121,391	170,560
CF from Investing				
Purchase of fixed assets	(18,746)	(19,977)	(20,000)	(20,000)
Inc/(Dec) of investments	2,127	2,230	-	-
Net CF used in investing	(8,449)	1,534	-	-
CF from financing				
Inc/(Dec) of borrowings	2,646	(616)	-	-
Dividends / Interest paid	(18,665)	(23,545)	(30,923)	(46,792)
Others	2,780	2,536	-	-
Net CF used in financing	(13,239)	(21,625)	(30,923)	(46,792)
(+ / -) in cash and cash equivalents	87,335	93,828	70,469	103,769
Opening cash and cash equivalents	209,615	296,950	390,778	461,247
Closing cash and cash equivalents	296,950	390,778	461,247	565,017

Ratios and Valuation

	FY09	FY10	FY11E	FY12E
Debt: Equity (x)	0.1	0.1	0.1	0.0
Current ratio (x)	1.2	1.3	1.5	1.7
EBITDA (%)	6.5	22.4	24.0	31.1
PAT (%)	5.1	20.6	19.5	25.0
RONW (%)	10.9	37.2	31.3	35.9
ROCE (%)	11.4	35.9	30.5	35.1
Fixed asset turnover (x)	1.2	1.3	1.4	1.7
Per Share Data				
EPS (INR)	3.3	15.2	16.5	25.6
Cash EPS (INR)	6.0	17.3	19.2	28.1
Book value (INR)	30.1	40.9	52.8	71.3
Valuations				
P/E (x)	98.8	21.3	19.7	12.7
P/BV (x)	10.8	7.9	6.2	4.6
EV/EBIDTA (x)	67.4	16.1	13.1	8.3
EV/Sales (x)	4.4	3.6	3.1	2.6
Growth				
Sales (%)	17.9	14.4	14.5	21.0
EBITDA (%)	-58.0	297.1	22.2	57.3
PAT (%)	-60.4	362.9	8.5	54.8



Tower Capital Research: Equity Rating Definitions

Stock Rating	Definition
Buy	appreciate > (+) 20%
Buy on Decline *	between (+) 5% to (+) 20%
Neutral	between (+) 5% to (-) 5%
Sell on Rise **	between (-) 5% to (-) 20%
Sell	depreciate > (-) 20%

* Buy 1/3rd quantity at CMP

** Sell 1/3rd quantity at CMP

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