

Coal India

Higher bonus payout of 40% y/y financial impact not high, but in the year of wage hikes, setting a trend? - ALERT

- **Bonus payout settled at Rs21K/employee, implying 40% y/y increase:** As per the latest media reports available (Dow Jones, Bloomberg), after a meeting with the Coal Minister and the employee unions, Coal India (COAL) has agreed to hike the bonus payout to Rs 21K/employee from the earlier Rs17K/employee (last year Rs15K/employee). The financial impact from the increase of Rs4K on roughly 370,000 employees is Rs1.5bn (as per the chairman it would be Rs1.44bn) and against a full year wage bill of Rs182bn of FY11, the incremental amount is ~1%. The increased bonus amount would flow through the P&L over the next 3 quarters. As per the media reports (TOI), the union demand was Rs22.5K-23.5K/employee.
- **Recent strike on the same issue cost company Rs2.5bn:** We believe the most important takeaway from the entire issue is how the saga has played out and the possible readings for the more critical wage negotiations which are currently under way. COAL had earlier agreed to a roughly 13% increase in bonus, and on this the unions went on a one day strike on Oct 10th. Then came newsflow of severe disruption of coal supplies to various power plants (mainly one off issues), post which the Coal Minister met the unions today and the company agreed to hiking the bonus to Rs21K. While the 40% increase in bonus does not mean that the wage increase will be at similar levels, we believe the wage negotiation could be contentious and given the coal crunch currently being seen in the country, management could be more focused on ensuring production is not hit.

Underweight

COAL.BO, COAL IN

Price: Rs321.15

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Metals & Mining

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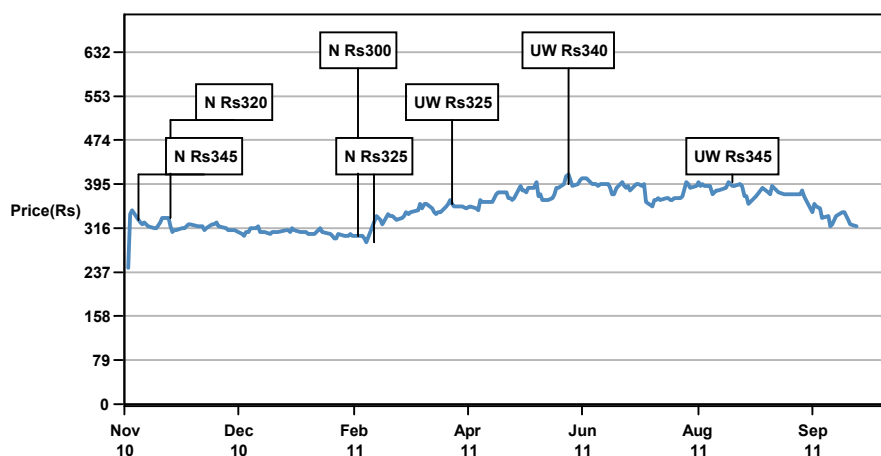
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Coal India (COAL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
08-Nov-10	N	330.75	345.00
23-Nov-10	N	333.35	320.00
21-Feb-11	N	301.85	300.00
28-Feb-11	N	292.65	325.00
07-Apr-11	UW	359.65	325.00
01-Jun-11	UW	394.95	340.00
18-Aug-11	UW	397.90	345.00

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

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