



**IPO Rating: *Subscribe***

**Fairwealth Research Desk** rates the initial public issue (IPO) of **COAL INDIA a must subscribe. The issue opened on Oct. 18, 2010 and is closing on Oct. 21, 2010 for retail investor and on Oct 20, 2010 for Institutional Investors.** The face value is Rs. 10 per share and the price band for the issue is 225-245. It is a 100% book building process aggregating over Rs 15000cr.

**IPO Details**

|                                     |   |
|-------------------------------------|---|
| <b>Shares offered to public</b>     | 63.16cr   |
| <b>Object of the issue</b>          | To carry out divestment of 63.16cr equity share. The company will not receive any IPO proceeds, all proceeds will go to GOI.                |
| <b>Amount proposed to be raised</b> | Rs 13917-15154cr  |
| <b>Price band</b>                   | Rs 225-245  |
| <b>Lead managers</b>                | ENAM Securities Private Ltd, Kotak Mahindra Capital Co Ltd, Citigroup Global Markets India, Morgan Stanley India Company, DSP Merrill Lynch |

**COMPANY PROFILE**

**Coal India is the largest coal producing company in the world with raw coal production of 431.26mn tons in FY2010. The company operates with 471 mines in major coal fields across eight states in India, including both open cast and underground mines.**

**Financial Highlights**

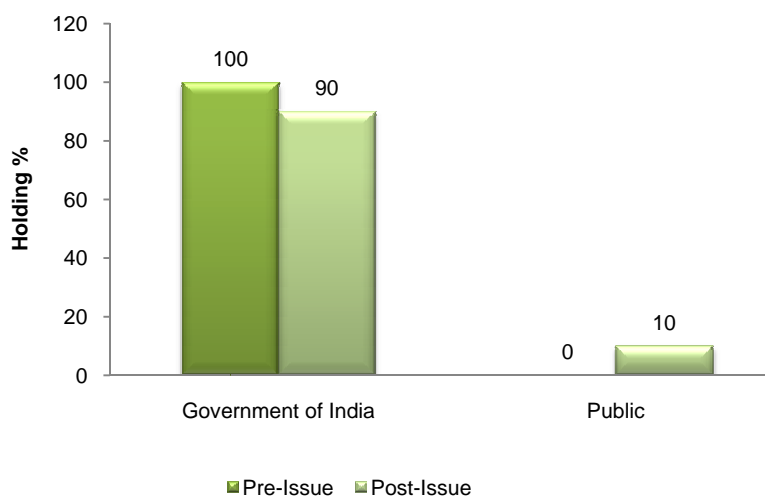
For the Financial Year 2010, the company has reported a total income of Rs 52592.29cr

The profit after tax was Rs. 96,22.45cr for FY2010 as against Rs 2078.69 during the corresponding period last year.

Its revenues grew at a two-year CAGR of 17.0% on account of 5.5% CAGR in sales volumes. It intends to enhance its profitability and maintain the competitiveness by improving their operating efficiencies and increasing productivity. CIL is also aiming to reduce per unit production costs by implementing advanced mechanized production technologies and equipment. Considering all its future expansion plans, the company expects its profits to increase by 25 percent in the coming year.

**The FY10 EPS of the company stands at Rs 15.57.**

**Shareholding Pattern**



### Company's Background

Coal India Limited (CIL) was incorporated in the year 1975. CIL is the largest coal producer and coal reserve holder in the world. In India the company enjoys a monopoly position by contributing 82% of total coal production. They produce non coking coal, and coking coal, but the majority of raw coal production is non coking coal with 91.6%. Coal India Ltd is majorly catering to needs of power, steel and cement sectors. Most of the coal produced by the company is used by the thermal power sector in India. The top five customers of the company are power utility companies; NTPC leads the rank with 26.7% of sales. Coal India operates 471 mines in 21 major coal fields across 8 states in India including 163 open cast mines, 273 underground mines and 35 mixed mines (includes both open cast and underground mines). Around 90% of coal is produced from open cast mines and the balance from underground mines. Moreover the company is producing raw coal to facilitate the production of beneficiated coal thus operating in 17 coal beneficiation facilities with an aggregate designed feedstock capacity of 39.40 million tons per annum. In addition, they intend to develop an additional 20 coal beneficiation facilities with an aggregate additional proposed feedstock capacity of 111.10 million tons per annum. Coal India continues to expand with 45 projects lined up out of these 22 projects are capacity expansion projects and 23 are new mine projects. The company prices its high grade quality coal 15% below the landed cost of comparative imported coal in India.

### Investment Rationale:

#### The Biggest Fish in Coal Industry:

Coal India is the largest coal producing company in the world, based on its raw coal production of 431.26 million tons in FY2010. CIL alone accounts for over 80% of the total coal production in India. The company also poses the largest coal reserves in the world based on its reserve base of 18,862.9 million tons of Total Reserves as of April 1, 2010.

#### Well positioned to earn rich dividends on the high demand for coal:

CIL is well positioned to capitalize on the high demand for coal in India, particularly in the thermal power, iron and steel, cement and other manufacturing and industrial sectors. As a result of the high demand for coal in the thermal power sector and the iron and steel industry, demand for non-coking coal in India is projected to grow at a CAGR of 11.3% from 508 million tons in fiscal 2009 to approximately 868 million tons in fiscal 2014, while the demand for coking coal is likely to increase at CAGR of 9.7% in the same period. Most of its raw coal production is supplied for use in the thermal power sector in India. The relatively low per capita consumption of power in India compared to the world average and the continuing power deficit in India presents significant potential for growth in the demand for power in India, and demand for non-coking coal in the thermal power sector is projected to grow at a CAGR of 11.3% between fiscal 2009 and fiscal 2014. Because of its pre-eminent position in the coal industry in India, the continuing dependence of the power sector on coal as a cost effective source of fuel and its long standing relationship with significant customers such as NTPC and other government-owned and controlled power utilities, it plays a strategic role in the development of India's

thermal power sector, which continues to be a key driver for growth in the Indian economy.

**Execution Capabilities of Management:** The management of Coal India is highly efficient coupled with their rich experience they adds competitive advantage to the company in exploration and production, cost and operation efficiency and financial structuring.

CIL's wholly-owned subsidiary CMPDIL is an established exploration and coal mine design and planning institute in India and provides technical and consultancy services for its operations as well as to third party clients for geological exploration and drilling, mine planning and design, coal beneficiation and utilization, allied engineering services, human resource development, environmental engineering, information and communication technology, research and development and laboratory and field services. CMPDIL has significant knowledge of geological and mining conditions in India and is a repository of information relating to coal blocks in India, which enables CIL to implement effective mine development and mine planning activities. In

**Continuous Focus on improving assets base:**

Demand for non-coking coal in India is projected at approximately 868 million tons in fiscal 2014, while the demand for coking coal is also likely to increase at same pace. Taking the increasing demand and lagging supply into consideration the company is acquiring new reserve base and also taking initiatives for overseas acquisitions in the near term. The company has obtained prospecting license for the coal blocks in Mozambique through its wholly owned subsidiary. It is also planning to make equity investments in strategic brown field and Greenfield coal assets and enter into long-term off take arrangements for the import of coal into India. They have also established a strategic joint venture ICVL with four large Indian PSUs namely SAIL, NTPC, NMDC and RINL for the acquisition of coal assets outside India specifically in Australia, the US, and Indonesia. The company has set aside Rs 5,300cr in this financial year for foreign acquisitions. To meet the increasing target, CIL has planned 45 projects (comprising 22 capacity expansion projects for existing mines and 23 new mine projects) were in various stages of mine planning and development.

**Robust Financial Performance:**

The company has reported a total income of Rs 52,592.29cr for FY10. The company posted its bottomline to Rs. 96,22.45cr for FY10 as against Rs 2078.69 during the corresponding period last year.

Coal India's revenues grew at a two-year CAGR of 17.0% on account of 5.5% CAGR in sales volumes. The company expects its profitability to grow and maintain the competitiveness by improving their operating efficiencies and increasing productivity. CIL is also aiming to reduce per unit production costs by implementing advanced mechanized production technologies and equipment.

## CRISIL RATING:

CRISIL has assigned a CRISIL IPO Grade '5/5' to the proposed initial public offer (IPO) of Coal India Ltd. ICRA and CARE have also assigned the highest rating. The company is globally the largest coal producer and reserve holder. CIL enjoys the dominant position in Indian Coal Industry with no comparable peer group. This will be the largest IPO in the history of Indian capital market where the company is aiming to raise over 15000 crore. Employees and retail investors will get 5% discount to the issue price. The EPS for FY10 of the company works out to Rs 15.23 At the offer price band of Rs 225 - Rs 245 per share, PE works out to 14.76 – 16.08 times. Overall, the issue is attractively priced, taking into consideration the increasing demand for coal in India and the company is well positioned to capitalise the upcoming opportunities, we expect the company to perform well in the future on the back of good future prospects and healthy financials. Since this is a government owned company with good management and steady business model, those looking for steady growth can subscribe the issue for long term. Potential for listing gains also exists.

## Key Concerns:

### New Mining Policy a Concern:

Recently, it has been proposed in the draft Mines and Minerals (Development and Regulation) Bill, 2010 that the mining companies should share 26% of profits with local inhabitants and persons displaced by the mining activity. In the event of acceptance of this proposal by the government and implementation of the same, the company may witness a substantial negative impact on its financial position.

### Change in Government policy is also a risk factor to the company

Policies and regulations regarding environmental issues, forest clearance also act as a barrier in the future plans of the company. Moreover the proposal for categorising forest areas into 'go' and 'no-go' areas for coal mining is currently under discussion with the GoI, Ministry of Environment and Forests, and Ministry of Coal. Also, the government of India is planning to set up an independent coal regulator which will again bring significant changes in the strategic moves of the company.

### Larger reserve of India's non-coking coal is of low grade:

The majority of non-coking coal reserves in India are of low grade and hence the price of coal is also cheap. The price of the non-coking coal produced by CIL is almost 60-70% lower than that of its Asian peers.

## Rating:

**As robust demand is expected in the near future from power and steel sector with huge capacity expansions we expect the demand for coal as a source of fuel to outplay the supply.**

**The Long term Investor can apply in the IPO with an expected return of 50-60%, while short term investor can expect listing gains of 20-30%.**

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