

Strong 1Q; wages and mining bill hold the key

Coal India's 1QFY12 results were strong as expected, with all operational metrics in line with our estimates. Though PAT was higher than our estimates, any material earnings upgrade driven by changes to operational assumptions appears unlikely, unless e-auction prices continue to surge from current levels. Stock trajectory hereon would depend on wage hike expectations and progress on profit-sharing provisions of the proposed mining bill.

Strong 1Q results driven by realisation gains; all operational metrics in line with our estimates

- 1QFY12 net profit increased 63% YoY, as the full impact of the price increase taken in end-February 2011 resulted in a 21% YoY increase in ASP to Rs1,365 per tonne.
- The increase in ASP was 1.5% higher than our estimates, owing to increased proportion of e-auction sales. E-auction sales at 11.3mt accounted for 10.7% of sales in 1QFY12 as compared to 9.2% of sales in 1QFY11.
- Variable cash costs were in line with our estimates, whereas the non-cash OBR adjustment charges were higher than our estimates.
- Headline employee costs appear to be higher due to classification changes. Fixed costs at Rs51.65bn were in line with our Rs52bn estimate, but the individual items had divergent trends. Employee costs increased 6% QoQ, higher than our estimate, but this was offset by a 42% QoQ decline in social overhead costs.
- This decline in social overhead costs was due to classification changes. A large proportion of social overheads were related to employee benefits. Hence, the name of this line item was changed from social overheads to welfare expenses.
- Other income at Rs15.59bn was significantly higher than our estimates of Rs13bn. The company has stopped providing details of other income. The higher income is likely driven by higher other operational income.
- Tax rate at 30.5% continues to remain below the marginal tax rate, which is likely driven by the available tax offset, thanks to accumulated losses in the two subsidiaries, BCCL and ECL.

Result update

CMP	Rs385
12-mth TP (Rs)	416 (8%)
Market cap (US\$ m)	53,585
Bloomberg	COAL IN
Sector	Coal

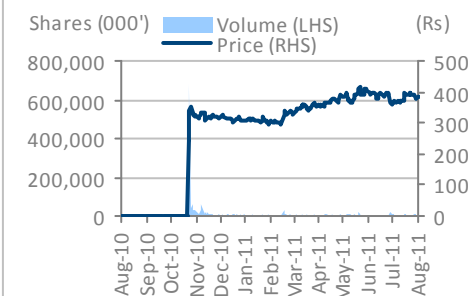
Shareholding pattern (%)

Promoters	90.0
FII	6.4
Domestic MFs	1.6
Others	2.1
52Wk High/Low (Rs)	422/245
Shares o/s (m)	6316
Daily volume (US\$ m)	37
Dividend yield FY12ii (%)	1.1
Free float (%)	10.0

Price performance (%)

	1M	3M	1Y
Coal India	5.5	0.9	NA
Rel. to Sensex	14.0	9.1	NA
GMDC	2.2	17.5	32.3

Stock performance



Financial summary (Rs m)

Y/e 31 Mar	FY10A	FY11A	FY12ii	FY13ii	FY14ii
Revenues (Rs m)	477,232	531,969	642,526	698,275	763,418
EBITDA Margins (%)	27.4	28.6	32.8	33.2	35.0
Pre-Exceptional PAT (Rs m)	101,377	109,275	152,140	169,656	199,100
Reported PAT (Rs m)	98,294	108,674	152,140	169,656	199,100
EPS (Rs)	16.1	17.3	24.1	26.9	31.5
Growth (%)	146.2	7.8	39.2	11.5	17.4
IIFL vs consensus (%)			2.2	-0.8	4.3
PER (x)	24.0	22.3	16.0	14.3	12.2
ROE (%)	43.8	36.7	38.8	32.9	30.3
EV/EBITDA (x)	15.8	13.1	9.0	7.5	5.9
Price/Book (x)	9.4	7.3	5.4	4.2	3.3

Source: Company, IIFL Research. Priced as on 12 August 2011

Figure 1: Consolidated 1QFY12 results

Rs m	1QFY11	4QFY11	1QFY12	% YoY
Production (m tonne)	95.15	131.80	96.3	1.2
Total raw coal off-take (m tonne)	101.28	114.00	106.2	4.9
Net sales	114,356	150,162	144,991	26.8
Realisation (Rs/tonne)	1,129	1,317	1,365	20.9
Decretion (accretion) to stocks	56	13,229	-3,690	
Total sales	114,412	163,390	141,301	23.5
Consumption of stores & spares	10,720	15,360	11,325	5.6
Power & fuel	4,330	4,295	4,627	6.8
Repairs	1,518	1,262	1,173	-22.7
Contractual expenses	10,118	13,655	11,059	9.3
Overburden removal adjustment	4,333	11,466	5,881	35.7
Miscellaneous expenses	4,288	8,289	4,379	2.1
Provisions / write-off	690.02	3637.106	2965.1	329.7
Contribution	78,415	105,427	99,893	27.4
Contribution margin	68.6%	70.2%	68.9%	
Employee cost	43,363	45,935	48,721	12.4
Social overhead	4,683	7,010	2,933	-37.4
EBITDA	30,370	52,482	48,239	58.8
EBITDA margin	26.6%	35.0%	33.3%	
EBITDA / tonne (Rs)	300	460	454	51.5
Interest & Finance charges	567	(282)	97	-82.9
Depreciation & impairment	4,112	4,780	4,308	4.8
Other income	11,777	11,279	15,589	32.4
PBT	37,468	59,263	59,423	58.6
PBT margin	32.8%	39.5%	41.0%	
Tax	12,098	17,224	18,115	49.7
Tax rate	32.3%	29.1%	30.5%	
Recurring PAT	25,370	42,039	41,308	62.8
Reported PAT	25,329	42,039	41,308	63.1
EPS	4.0	6.7	6.5	63.1

Source: Company, IIFL Research

So far so good - extent of wage increases and regulatory outlook to determine stock trajectory

- While 1QFY12 numbers are ahead of our estimates, scope for any material earnings upgrades appears unlikely. For instance, our FY12 off-take growth estimate of 5.3% is ahead of 1Q growth of 4.9% YoY.
- Our full-year ASP assumption of Rs1,393 per tonne is 2% higher than 1Q realisations and reflects our assumption of further increase in e-auction prices from current levels.
- Sustained higher other income and lower tax rate could translate into ~5% earnings upgrade, but this has little bearing on the long-term growth outlook.
- Our staff cost assumptions factor in ~16% increase in overall employee costs to account for salary increases over FY12-13 to workers in addition to the usual inflationary increases.
- The outcome depends on negotiations between the management and the workers' unions that would last for at least a year. The company would start making provisions from 2QFY12 onwards. Based on evidence of wage negotiations at other PSUs, the final increase would be materially higher than initial provisions.
- In our view, the stock price does not fully discount the risk of the MMDR Bill being passed into law (entailing 26% profit sharing with locals). Sections within the government are quite clearly opposed to such profit-sharing provisions.
- However, the majority view within the governing dispensation is in favour of profit sharing, and it would be risky to construe sluggish progress on the bill as no progress at all.

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY10A	FY11ii	FY12ii	FY13ii	FY14ii
Revenue	477,232	531,969	642,526	698,275	763,418
EBITDA	130,628	151,890	210,991	231,902	266,984
EBIT	117,392	135,161	191,768	210,303	243,142
Interest income	26,940	29,723	35,194	42,727	54,160
Interest expense	1,560	791	1,128	1,053	978
Others	2,030	1,140	1,240	1,240	840
Profit before tax	144,802	165,234	227,075	253,218	297,164
Taxes	43,425	55,959	74,935	83,562	98,064
Extraordinary items	-537	-602	0	0	0
Net profit	98,294	108,674	152,140	169,656	199,100

Cash flow summary (Rs m)

Y/e 31 Mar	FY10A	FY11ii	FY12ii	FY13ii	FY14ii
PBT	144,575	165,234	227,075	253,218	297,164
Depr. & amortization	13,295	16,729	19,223	21,599	23,841
Tax paid	-49,759	-58,864	-78,130	-87,237	-102,290
Working capital Δ	34,349	2,029	-7,380	33,556	30,709
Other operating items	-36,280	-30,540	-36,434	-43,967	-55,000
Operating cashflow	106,180	94,588	124,353	177,168	194,425
Capital expenditure	-19,815	-24,922	-31,500	-35,500	-39,500
Free cash flow	86,365	69,666	92,853	141,668	154,925
Investments	2,230	2,184	0	0	0
Debt financing/disposal	-616	-5,333	-1,000	-1,000	-1,000
Dividends paid	-25,857	-28,443	-31,287	-35,980	-41,377
Other items	31,706	29,771	39,874	47,744	59,143
Net change in cash	93,828	67,846	100,440	152,432	171,690

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar	FY10A	FY11ii	FY12ii	FY13ii	FY14ii
Cash & equivalents	390,778	458,623	559,063	711,495	883,185
Sundry debtors	21,686	30,256	29,926	32,522	35,556
Inventories - trade	44,018	55,856	58,091	63,132	69,021
Other current assets	86,762	99,225	124,862	138,189	158,948
Fixed assets	142,416	150,610	162,887	176,788	192,446
Other term assets	22,496	19,403	19,403	19,403	19,403
Total assets	708,156	813,973	954,232	1,141,529	1,358,560
Sundry creditors	331,428	391,964	408,420	456,469	505,983
Other current liabs	82,396	56,761	60,468	66,939	77,815
Long-term debt/CBs	20,869	15,536	14,536	13,536	12,536
Other long-term liabs	14,774	16,214	19,653	23,429	27,572
Minorities/other equity	236	326	326	326	326
Net worth	258,453	333,172	450,830	580,831	734,328
Total liabilities & equity	708,156	813,973	954,232	1,141,529	1,358,560

Ratio analysis

Y/e 31 Mar	FY10A	FY11ii	FY12ii	FY13ii	FY14ii
Revenue growth (%)	16.1	11.5	20.8	8.7	9.3
Op EBITDA growth (%)	97.3	16.3	38.9	9.9	15.1
Op EBIT growth (%)	135.6	15.1	41.9	9.7	15.6
Op EBITDA margin (%)	27.4	28.6	32.8	33.2	35.0
Op EBIT margin (%)	24.6	25.4	29.8	30.1	31.8
Net profit margin (%)	20.6	20.4	23.7	24.3	26.1
Dividend payout (%)	22.5	22.4	17.6	18.1	17.8
Tax rate (%)	32.1	34.2	33.0	33.0	33.0
Net debt/equity (%)	-143.1	-133.0	-120.8	-120.2	-118.6
Return on equity (%)	43.8	36.7	38.8	32.9	30.3
Return on assets (%)	14.8	14.3	17.2	16.2	15.9

Source: Company data, IIFL Research

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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