



Coal India Ltd

 Relative to sector: **Outperformer**
Jagdishwar Toppo

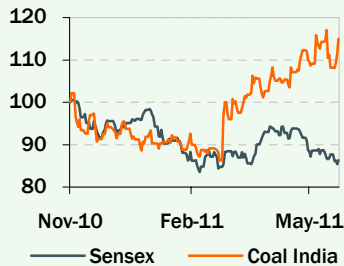
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 6,316 mn
Market cap	: Rs 2,452.3 bn
52 week high/low	: Rs 401/ Rs 245
Avg. daily vol. (1mth)	: 4.7 mn shares
Bloomberg code	: COAL IB
Reuters code	: COAL.BO

Shareholding (%) Mar-11 QoQ chg

Promoters	: 90.0	0.0
FIs	: 6.1	0.6
MFs / UTI	: 1.2	0.2
Banks / FIs	: 0.5	(0.1)
Others	: 2.2	(0.6)

Financial summary

Y/E Mar	Sales (Rs bn)	PAT (Rs bn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	Core RoE (%)	Core RoCE (%)	EV/EBITDA (x)	DPS (Rs)
FY10	447	97	-	15.3	31.3	-	41	55	-	4.7
FY11	502	111	-	17.5	14.5	-	37	52	-	6.1
FY12E	609	168	22.0	26.6	51.5	14.6	38	54	8.7	9.3
FY13E	671	181	25.4	28.7	8.0	13.5	30	43	8.0	10.0

Source: Company, ENAM estimates, Note: Prices as on 27 May 2011, ENAM est. are IFRS compliant for FY12 & FY13

WAGON SUPPLIES & MOEF CLEARANCES - KEY TRIGGERS

Coal India's (CIL) 4Q EBITDA rose 54% QoQ to Rs 57.9 bn driven by: a) improved realn (+7% QoQ) due to price hike in Feb and strong e-auction prices, b) bonus for meeting 90% of committed dispatches to power utilities for FY11 (Rs 6.7 bn) and c) higher coking coal prices negotiated with SAIL for FY11 (Rs 4 bn). Adj. PAT was at Rs 42.1 bn (up 59% QoQ).

Key takeaways from the analyst meet

- ❑ **Volume targets for FY12E:** CIL targets a production of 452 mnt and off-take of 454 mnt for FY12. This is based on mines currently operational or where expansion is currently in progress, and is thus **not dependent on any forest or environmental clearances**. We maintain our FY12 production and off-take estimates at 450 mnt.
- ❑ **E-auction:** In-order to liquidate inventories, esp at MCL & CCL, CIL has increased e-auction proportion to ~20% in April & May. This will be offset by lower vols at other subsidiaries, thus reining in overall proportion to 11-12%. However, the co. is in talks with govt to increase e-auction vols in-order to liquidate inventory. **Any positive development on this front will be a plus for CIL's realizations.**
- ❑ CIL is hopeful that rakes availability will improve in FY12, **since Indian Railways will receive 16,000 wagons (~2,000 for replacement, rest additional) from wagon suppliers in FY12E.**
- ❑ **OBR adjustment:** The co. will stop providing for OBR costs starting FY12 and add the provision in balance sheet (~Rs 146 bn) to equity. It is in talks with Comptroller and Auditor General regarding this.
- ❑ **Wage provision:** Wage hikes effective July'11 is for all coal workers working in India (CIL, Singareni Collieries and Tata Steel's coal mines). Until the time when the increase will be negotiated, CIL will make a provision for increase of 25%.

Outlook and Valuations

We maintain our IFRS compliant EPS estimates for FY12 and FY13 at Rs 26.6 and Rs 28.7 respectively. **We maintain our DCF based target price of Rs 456 and our BUY rating.**

Results update

(Rs mn)	Quarter ended			12 months ended		
	Mar-11	Mar-10	% Chg	Mar-11	Mar-10	% Chg
Net Sales	156,216	130,782	19	502,336	447,122	12.3
EBITDA	57,931	37,623	54	153,820	129,242	19.0
Other income	5,685	9,013	(37)	28,763	25,799	11.5
PBITD	63,616	46,636	36	182,583	155,040	17.8
Depreciation	4,695	4,136	14	16,729	13,295	25.8
PBT	59,257	42,215	40	165,235	140,186	17.9
Tax	17,190	15,796	9	54,459	43,425	25.4
Adjusted PAT	42,067	26,420	59	110,776	96,761	14.5
Extra ordinary income/ (exp.)	136	(158)	-	(2,102)	(537)	-
Reported PAT	42,203	26,262	61	108,674	96,224	12.9
No. of shares (mn)	6,316	6,316	-	6,316	6,316	-
EBITDA margin (%)	37.1	28.8	-	30.6	28.9	-
PBITD margin (%)	40.7	35.7	-	36.3	34.7	-
EPS - annualized (Rs.)	26.6	16.7	59	17.5	15.3	14.5

Source: Company, ENAM Research

Analyst meet highlights:

- **Volume targets for FY12:** The Co. targets a production of 452 mnt and off-take of 454 mnt for FY12. This is based on mines currently operational or where expansion is currently in progress, and **is thus not dependent on any forest or environmental clearances**. In order to achieve this, CIL will require an avg of 175 rakes per day. **We maintain our FY12E production and off-take estimates at 450 mnt.**
- **Inventory at pitheads:** CIL had inventory to the extent of 75 mnt as of Mar-11. The co. plans to liquidate this by 25 mnt in FY12, subject to the availability of rakes. If CIL is able to do this, it will add to the off-take target of 454 mnt.
- **E-auction:** In-order to liquidate inventories, particularly at MCL and CCL where it has high levels of inventory – CIL has increased e-auction proportion to ~20% in April and May. This will be offset by lower volumes at other subsidiaries, thus reining in overall proportion to 11-12%. However, the co. is in talks with government to increase e-auction volumes in-order to liquidate inventory. **Any positive development on this front will be a plus for CIL's realizations.**
- The co. is hopeful that rakes availability will improve in FY12, **since Indian Railways will receive 16,000 wagons from wagon suppliers in FY12**. Of the 16,000 wagons, -2,000 are for replacement while the remaining are additional wagons.
- **Investment in railway rakes:** CIL has discussed the possibility of investing in rakes by itself, in order to overcome the issue of rakes availability. However, as per the current policy of Indian Railways, it doesn't permit rakes in coal sector for captive use.
- **OBR adjustment:** The co. will stop providing for OBR costs starting FY12 and add the provision in balance sheet (~Rs 146bn) to equity. It is in talks with Comptroller and Auditor General regarding this.

- ❑ **Increased rakes availability in April:** Average rake availability was 180 rakes per day in April. This however fell in May due to law and order issues in Jharkhand, thus impacting rail movement for 10 days. **The co. however expects availability to improve in June. Overall, it was able to liquidate inventory to the extent of 3.5 mnt in Apr and May.**
- ❑ **Mine-specific supply:** Under this policy, CIL enters into an agreement with its customers where it will supply the customers' needs only from a specific mine. Savings on account of freight to the customer will be shared by CIL and the customer equally. One of the conditions for this is that the customer should have the required infrastructure, including covered containers (due to environmental concerns). **Volumes under this arrangement are less than 1% and the company doesn't believe that this is a scaleable proposition.**
- ❑ **Wage provision:** Wage increases effective July-2011 is for all coal workers working in India (CIL, Singareni Collieries and Tata Steel's mines). Until the time when the increase will be negotiated, CIL will make a provision for increase of 25%.

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