

Coal India

Performance Highlights

Particulars (₹ cr)	1HFY11	1HFY10	% chg (yoy)
Net sales	23,608	20,207	16.8
EBITDA	4,896	3,318	47.5
% margin	20.7	16.4	432bp
Net profit	4,020	3,115	29.1

Source: Company, Angel Research

Top-line growth led by higher prices: Coal India's 1HFY2011 top-line grew 16.8% yoy to ₹23,608cr on the back of the 11% price hike witnessed in October'10. Average realisation increased 13.5% yoy to ₹1,180/tonne. However, sales volume grew by a mere 2.94% yoy to 200mn tonnes, while production was flat at 185.7mn tonnes. While production volume was lower by 9.0% than budgeted, sales volume was lower by 10.7% than the budgeted sales volume (refer to Exhibit 2).

Price increase boosts EBITDA and net income: EBITDA margins expanded by 431.6bp to 20.7% as EBITDA increased by 47.5% yoy to ₹4,896cr. EBITDA/tonne surged 43.3% yoy to ₹245/tonne. While staff cost and contractual expenses increased 17.2% (₹9,118cr) and 29.7% yoy (₹2,067cr) respectively, overburden removal expense declined 42.7% yoy to ₹778cr. Other income moved up 9.5% yoy to ₹2,335cr. Consequently, net income clocked 29.1% yoy growth to ₹4,020cr. Cash and cash equivalents at the end of the quarter stood at ₹397bn.

Aggressively scouting for acquisitions: CIL is aggressively looking to acquire coal assets in Australia, Indonesia and US. It is in advanced stages to buy a stake in Peabody (Australia) for AU \$200mn. CIL is also in talks with Massey Energy (fourth largest coal company in the US), which has reserves of 2.3bn tonnes.

Outlook and valuation: At the CMP, the stock is trading at 12.8x FY2011E and 9.4x FY2012E EV/EBITDA. **While H2FY2011 is expected to be better on account of higher volume growth, given the sharp rally since listing (30.6% in one month), we recommend Neutral on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	40,811	46,684	50,183	55,971
% chg	17.9	14.4	7.5	11.5
Net profit	4,063	9,834	10,518	12,712
% chg	(5.2)	142.1	7.0	20.9
EPS (₹)	6.4	15.6	16.7	20.1
EBITDA margin (%)	6.0	22.0	23.5	26.7
P/E (x)	48.3	19.9	18.6	15.4
P/BV (x)	10.3	7.6	5.9	4.7
RoE (%)	22.4	43.8	35.7	33.8
RoCE (%)	3.6	34.5	31.1	32.1
EV/Sales (x)	4.1	3.4	3.0	2.5
EV/EBITDA (x)	68.5	15.5	12.8	9.4

Source: Company, Angel Research

NEUTRAL

CMP	₹310
Target Price	-

Investment Period	-
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Stock Info	
Sector	Mining
Market Cap (₹ cr)	196,091
Beta	0.4
52 Week High / Low	339/309
Avg. Daily Volume	24770286
Face Value (₹)	10
BSE Sensex	19,460
Nifty	5,866
Reuters Code	COAL.BO
Bloomberg Code	COAL@IN

Shareholding Pattern (%)	
Promoters	90.0
MF / Banks / Indian FIs	2.6
FII / NRIs / OCBs	3.4
Indian Public / Others	4.0

Abs. (%)	3m	1yr	3yr
Sensex	-	-	-
Coal India	-	-	-

Note: Coal India was listed on Nov. 4, 2010

Paresh Jain

Tel: 022-40403800 Ext: 348
 pareshn.jain@angelbroking.com

Pooja Jain

Tel: 022-40403800 Ext: 311
 pooja.j@angelbroking.com

Exhibit 1: 1HFY2011 Performance

Y/E March (₹ cr)	1HFY11	1HFY10	yoy %
Net sales	23,608	20,207	16.8
Raw material	1,259	1,116	12.8
% of net sales	5.3	5.5	
Consumption of Stores & Spares	2,342	2,174	7.7
% of net sales	9.9	10.8	
Staff cost	9,118	7,777	17.2
% of net sales	38.6	38.5	
Power & Fuel	861	849	1.3
% of net sales	3.6	4.2	
Social Overhead	965	881	9.5
% of net sales	4.1	4.4	
Contractual Expenses	2,067	1,593	29.7
% of net sales	8.8	7.9	
Overburden removal adjustment	778	1,358	(42.7)
% of net sales	3.3	6.7	
Other Expenses	1,323	1,140	16.0
% of net sales	5.6	5.6	
Total expenditure	18,712	16,888	10.8
% of net sales	79.3	83.6	
Operating profit	4,896	3,318	47.5
OPM (%)	20.7	16.4	
Other operating income	-	-	-
EBIDTA	4,896	3,318	47.5
EBITDA margins (%)	20.7	16.4	
Interest	74	26	187.4
Depreciation	781	667	17.1
Other income	2,335	2,134	9.5
Exceptional items	(61)	(52)	
Profit before tax	6,314	4,707	34.1
% of net sales	26.7	23.3	
Tax	2,294	1,592	44.1
% of PBT	36.3	33.8	
Rep. Net income	4,020	3,115	29.1
% of net sales	17.0	15.4	

Exhibit 2: Actual v/s Budgeted

(mn tonnes)	Actual	Budgeted	% Variation
Production	185.7	204.0	(9.0)
Sales volume	200.0	223.9	(10.7)

Exhibit 3: Per tonne analysis

(₹/tonne)	1HFY11	1HFY10	yoy %
Production (mn tonnes)	186	184	0.7
Sales (mn tonnes)	200	194	2.9
Revenue	1,180	1,040	13.5
Cost	936	869	7.6
Raw material expenses	63	57	9.6
Consumption of Stores & Spares	117	112	4.6
Staff costs	456	400	13.9
Power & Fuel	43	44	(1.6)
Social Overhead	48	45	6.4
Contractual Expenses	103	82	26.0
Overburden removal adjustment	39	70	(44.3)
Other Expenses	66	59	12.7
EBITDA (₹)	245	171	43.3

Investment rationale

Enjoys largest reserves and production base

CIL has the world's largest coal reserves at 19bn tonnes as per JORC's guidelines. The company's proved reserves stand at a high 11bn tones and constitute 56.2% of its total reserves. CIL, the biggest coal producer globally, produced 431mn tonnes of coal in FY2010.

Domestic demand outpacing supply

Demand is expected to increase at 10.6% CAGR over FY2010–15 as the power sector, which accounts for nearly 75% of the total coal demand, is likely to see exponential growth, as ~60MW of thermal capacity gets added over the period. With production expected to witness 8.6% CAGR over the same period lagging demand, India will structurally remain deficient in coal, thus placing CIL in favourable position. We expect CIL's coal production to post 5.7% CAGR over FY2010–15.

Significant leeway to increase prices

CIL sells raw coal at ~63% discount to the global prices. We expect blended realisations to increase at 6.1% CAGR over FY2010–15 on account of: a) the 5.1% CAGR increase in raw coal's notified price over FY2010–15, b) increased proportion of beneficiated coal sales, which commands ~120% premium over the notified coal price, and c) gradual increase in e-auction sales volumes from 11.6% of raw coal sales in FY2010 to 12.5% in FY2012, where the realised price is ~60% higher than the notified price.

Competitive cost structure

CIL is one of the lowest-cost coal producers in the world, with an average cost of US \$16/tonne. This is because CIL's production from the open cast mines has significantly lower production cost (US \$11/tonne) and accounts for 90% of its total production as compared to underground mines, which have higher production cost of US \$59/tonne.

Outlook and Valuation

At the CMP, the stock is trading at 12.8x FY2011E and 9.4x FY2012E EV/EBITDA. While H2FY2011 is expected to be better on account of higher volume growth, given the sharp rally since listing (30.6% in one month), we recommend Neutral on the stock.

Exhibit 4: Key assumptions

(mn tonnes)	FY2011E	FY2012E
Raw coal sales volume - Linkage	371	385
E-auction coal sales volume	51	55
Beneficiated coal sales volume	15	19
Average blended realisation (₹/tonne)	1,149	1,218
Staff cost (₹/tonne)	415	405

Source: Angel Research

Exhibit 5: Comparison with international peers

Company	Market Cap (US \$mn)	PE Ratios (x)			EV/EBITDA (x)		
		CY09/FY10	CY10/FY11	CY11/FY12	CY09/FY10	CY10/FY11	CY11/FY12
Arch Coal	4,720	66.6	24.7	11.1	13.1	8.4	5.5
CONSOL Energy	9,388	14.3	18.3	14.4	8.1	9.0	7.2
Peabody Energy	15,464	33.6	18.4	12.5	13.7	8.8	6.4
Massey Energy	5,063	43.2	-	14.7	12.0	15.5	6.2
International Coal Group	1,435	40.9	25.1	11.9	9.5	8.9	5.8
Centennial Coal Co.	2,382	41.6	16.2	12.8	15.1	7.5	6.4
Coal & Allied Ind.	9,275	23.0	20.6	12.5	13.4	11.8	7.1
Gloucester Coal	1,430	20.5	20.4	13.4	20.1	11.4	7.2
MacArthur Coal Ltd.	3,520	24.8	13.4	11.0	15.5	8.4	6.8
New Hope Corp. Ltd.	3,949	21.1	20.8	18.4	12.6	7.7	8.6
Whitehaven Coal Ltd.	3,266	62.0	33.6	17.4	30.6	18.3	9.8
Western Coal Corp.	3,507	85.5	16.3	8.6	36.9	9.8	5.7
Adaro Energy Tbk	8,561	17.1	26.4	14.3	7.6	9.5	6.2
Tambang Batubara Bukit Asam Tbk PT	5,203	16.0	21.5	13.8	10.6	14.8	8.6
Banpu PCL	7,202	15.1	11.9	11.3	13	13.2	7.9
Coal India	42,904	19.9	18.6	15.4	15.5	12.8	9.4
Average (x)		35.0	18.6	13.0	15.5	10.9	7.0

Source: Bloomberg; Note: *Angel estimates

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net sales	31,543	34,608	40,811	46,684	50,183	55,971
Other operating income	-	-	-	-	-	-
Total operating income	31,543	34,608	40,811	46,684	50,183	55,971
% chg	2.6	9.7	17.9	14.4	7.5	11.5
Total expenditure	24,728	28,563	38,350	36,421	38,372	41,012
Other mfg costs	7,326	7,679	8,315	7,971	7,314	8,083
Personnel	10,098	12,635	19,742	16,656	18,118	18,629
Other	7,304	8,249	10,293	11,794	12,940	14,300
EBITDA	6,815	6,045	2,461	10,263	11,812	14,959
% chg	(8.2)	(11.3)	(59.3)	317.0	15.1	26.6
(% of Net sales)	21.6	17.5	6.0	22.0	23.5	26.7
Depreciation	1,358	1,561	1,691	1,329	1,572	1,820
EBIT	5,457	4,484	770	8,934	10,240	13,139
% chg	(10.2)	(17.8)	(82.8)	1,059.9	14.6	28.3
(% of Net sales)	17.3	13.0	1.9	19.1	20.4	23.5
Interest charges	108	169	179	156	160	148
Other income	3,215	3,764	5,120	5,241	5,618	5,983
(% of PBT)	37.5	46.6	89.6	37.4	35.8	31.5
Recurring PBT	8,564	8,079	5,711	14,019	15,698	18,974
% chg	(1.9)	(5.7)	(29.3)	145.5	12.0	20.9
Extra. Inc./(Expense)	0	0	0	0	-	-
PBT (reported)	8,564	8,079	5,711	14,019	15,698	18,974
Tax	2,872	3,363	3,636	4,396	5,180	6,261
(% of PBT)	33.5	41.6	63.7	31.4	33.0	33.0
PAT (reported)	4,205	4,285	4,063	9,834	10,518	12,712
% chg	(31.2)	1.9	(5.2)	142.1	7.0	20.9
(% of Net sales)	13.3	12.4	10.0	21.1	21.0	22.7
Basic EPS (₹)	6.7	6.8	6.4	15.6	16.7	20.1
Fully diluted EPS (₹)	6.7	6.8	6.4	15.6	16.7	20.1
% chg	(31.2)	1.9	(5.2)	142.1	7.0	20.9

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity share capital	6,316	6,316	6,316	6,316	6,316	6,316
Reserves & surplus	9,897	10,884	12,692	19,531	26,765	35,782
Shareholders' funds	16,213	17,201	19,008	25,848	33,081	42,098
Share warrants	-	-	-	-	-	-
Minority interest	-	-	2	24	24	24
Total loans	2,144	1,884	2,148	2,087	1,913	1,793
Shifting and rehabilitation fund	688	946	1,224	1,477	1,477	1,477
Total liabilities	19,045	20,030	22,382	29,436	36,495	45,392
APPLICATION OF FUNDS						
Gross block	30,702	31,859	33,255	34,945	38,445	42,445
Less: Acc. depreciation	20,309	21,421	22,246	22,914	24,486	26,306
Net Block	10,393	10,439	11,009	12,031	13,959	16,139
Capital work-in-progress	1,238	1,539	1,822	2,108	2,108	2,108
Goodwill	-	-	-	-	-	-
Investments	2,026	1,718	1,505	1,282	1,282	1,282
Current assets	28,555	36,292	46,936	54,313	62,836	73,312
Cash	15,929	20,961	29,695	39,078	46,690	56,524
Loans & advances	7,818	10,266	11,727	8,665	8,665	8,665
Other	4,807	5,065	5,514	6,570	7,481	8,123
Current liabilities	23,617	30,594	39,942	41,385	44,777	48,535
Net current assets	4,938	5,698	6,994	12,929	18,060	24,777
Net deferred tax assets	451	637	1,052	1,086	1,086	1,086
Total assets	19,045	20,030	22,382	29,436	36,495	45,392

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	8,586	8,190	5,739	13,965	15,698	18,974
Depreciation	1,229	1,380	1,063	679	1,572	1,820
Change in working capital	24	2,762	5,606	2,268	2,482	3,116
Less: Other income	(1,513)	(534)	2,103	406.4	-	-
Direct taxes paid	2,333	2,930	2,791	3,999	5,180	6,261
Cash flow from operations	5,993	8,869	11,719	13,320	14,571	17,649
(Inc.)/ Dec. in fixed assets	(1,534)	(1,835)	(1,875)	(1,998)	(3,500)	(4,000)
(Inc.)/ Dec. in investments	0	0	213	223	0	0
Cash flow from investing	(1,534)	(1,835)	(1,662)	(1,775)	(3,500)	(4,000)
Issue of equity	(161)	(260)	265	(62)	(174)	(120)
Inc./(Dec.) in loans	(14)	0	0	0	0	-
Dividend paid	(1,888)	(1,995)	(1,705)	(2,210)	(3,285)	(3,695)
Others	106	253	117	109	-	-
Cash flow from financing	(1,957)	(2,002)	(1,324)	(2,163)	(3,459)	(3,815)
Inc./(Dec.) in cash	2,502	5,032	8,734	9,383	7,612	9,834
Opening cash bal.	13,427	15,929	20,961	29,695	39,078	46,690
Closing cash bal.	15,929	20,961	29,695	39,078	46,690	56,524

Key ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation ratio (x)						
P/E (on FDEPS)	46.6	45.8	48.3	19.9	18.6	15.4
P/CEPS	35.5	33.7	34.2	17.6	16.2	13.5
P/BV	12.1	11.4	10.3	7.6	5.9	4.7
Dividend yield (%)	0.8	0.9	0.9	1.1	1.3	1.4
EV/Sales	5.8	5.1	4.1	3.4	3.0	2.5
EV/EBITDA	26.8	29.3	68.5	15.5	12.8	9.4
EV/Total assets	9.6	8.8	7.5	5.4	4.1	3.1
Per share data (₹)						
EPS (Basic)	6.7	6.8	6.4	15.6	16.7	20.1
EPS (fully diluted)	6.7	6.8	6.4	15.6	16.7	20.1
Cash EPS	8.7	9.2	9.1	17.6	19.1	23.0
DPS	2.4	2.7	2.7	3.5	4.0	4.5
Book value	25.7	27.2	30.1	41.0	52.4	66.7
Returns (%)						
RoCE (Pre-tax)	30.2	23.0	3.6	34.5	31.1	32.1
RoE (pre-tax)	27.6	25.6	22.4	43.8	35.7	33.8
Turnover ratios (x)						
Asset turnover (gross block)	1.0	1.1	1.3	1.4	1.4	1.4
Inventory (days)	46	44	35	44	45	45
Receivables (days)	19	17	17	17	20	20
Payables (days)	11	9	8	8	8	8
WC cycle (days)	48	44	40	41	45	45
Solvency ratios (x)						
Net debt to equity	(0.9)	(1.1)	(1.4)	(1.4)	(1.4)	(1.3)
Net debt to EBITDA	(2.0)	(3.2)	(11.2)	(3.6)	(3.8)	(3.7)
Interest coverage	50.5	26.5	4.3	57.3	64.0	88.6

Research Team Tel: 022 - 4040 3800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

Coal India

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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