

Upgrade to Buy post recent correction

■ Event: recent correction provides attractive risk-reward opportunity

We upgrade Coal India to Buy rating after the sharp correction of 16% in the past one month (versus a 5% fall in the Nifty). This correction has been led by negative newsflow on: 1) the proposed mining tax; 2) concerns about wage negotiations; and 3) a production miss in H1. We believe that these concerns do not impact the structural story ie: 1) strong domestic coal demand; 2) a virtual monopoly; 3) ASP significantly lower than global prices—potential for price hikes; 4) low earnings volatility; and 4) one of the lowest cost producers globally. Globally, thermal coal prices have been flat over the past three months.

■ Impact: no changes to our estimates; H2 production could be higher

We forecast FY12/FY13 ASP of Rs1,344/1,400 and volumes of 452/473mt. Though CIL missed its April-August production target of 163mt by 7% due to heavy rains, it also sold inventory of c20mt during this period. It can increase production in H2 post the monsoon. We have factored in an incremental wage burden of US\$1bn for FY12. Our worst-case earnings impact from the proposed mining tax is c19% on PAT. However, there could be significant changes in the bill before it is passed and there is no clarity on the timeline of its implementation

■ Action: upgrade to Buy, structural theme intact

We believe the recent correction outweighs the recent negative newsflow and the structural story is very much intact.

■ Valuation: upgrade to Buy rating, maintain price target of Rs400

We continue to value CIL on 15x FY13E PE.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	408,108	466,843	524,121	626,640	685,220
EBIT (UBS)	28,653	91,523	118,062	167,250	187,263
Net Income (UBS)	40,595	98,294	109,275	144,642	169,001
EPS (UBS, Rs)	6.43	15.56	17.30	22.90	26.76
Net DPS (UBS, Rs)	2.70	3.50	3.90	5.19	6.07

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	13.9	19.6	22.5	26.7	27.3
ROIC (EBIT) %	-	95.0	101.2	111.4	96.8
EV/EBITDA (core) x	-	-	12.9	9.1	7.8
PE (UBS) x	-	-	18.8	14.2	12.1
Net dividend yield %	-	-	1.2	1.6	1.9

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs324.70 on 05 Oct 2011 23:53 HKT

Navin Gupta, CFA

Analyst
navin-kumar.gupta@ubs.com
+91-22-6155 6052

India

Mining

12-month rating **Buy**
Prior: Neutral

12m price target Rs400.00/US\$8.11
Unchanged

Price Rs324.70/US\$6.58

RIC: COAL.BO BBG: COAL IB

6 October 2011

Trading data (local/US\$)

52-wk range	Rs414.70-291.90/US\$9.25-6.44
Market cap.	Rs2,051bn/US\$41.6bn
Shares o/s	6,316m (ORD)
Free float	10%
Avg. daily volume ('000)	4,470
Avg. daily value (m)	Rs1,658.5

Balance sheet data 03/11E

Shareholders' equity	Rs333bn
P/BV (UBS)	6.2x
Net Cash (debt)	Rs443bn

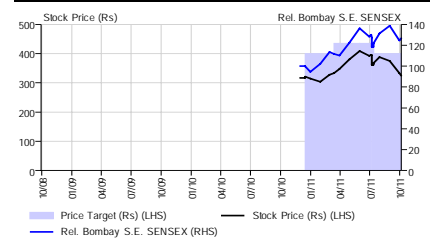
Forecast returns

Forecast price appreciation	+23.2%
Forecast dividend yield	1.2%
Forecast stock return	+24.4%
Market return assumption	13.3%
Forecast excess return	+11.1%

EPS (UBS, Rs)

	03/11E		03/10	
	From	To	Cons.	Actual
Q1E	-	4.33	4.49	3.89
Q2E	-	4.33	4.49	3.89
Q3E	-	4.33	4.49	3.89
Q4E	-	4.33	4.49	3.89
03/11E	-	17.30	18.16	
03/12E	-	22.90	22.90	

Performance (Rs)

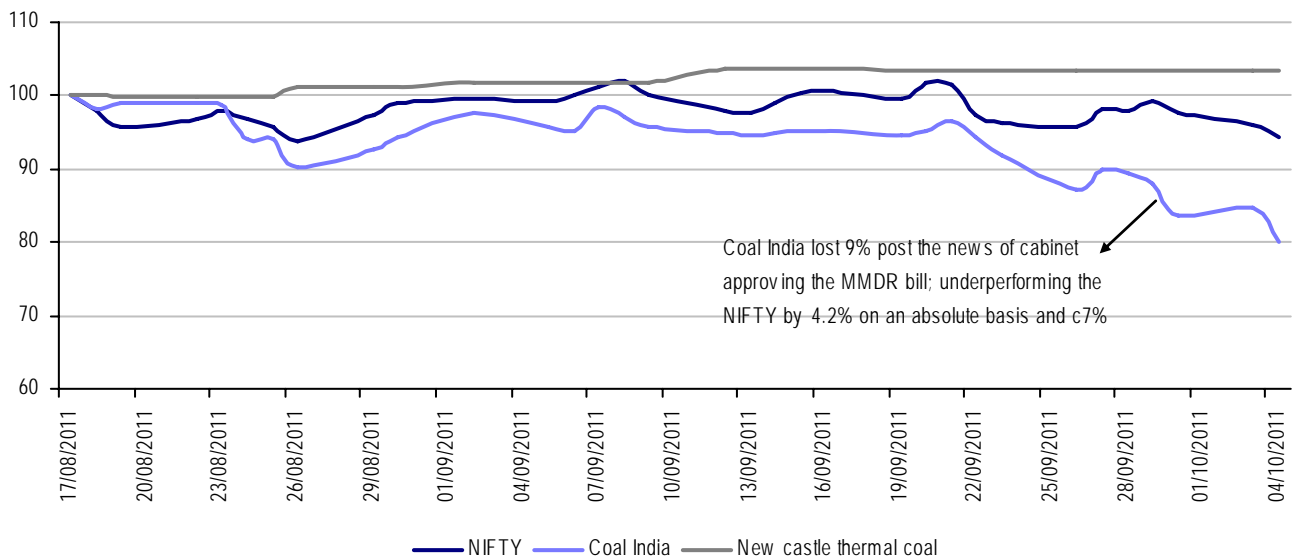


Source: UBS

www.ubs.com/investmentresearch

Recent negative newsflow priced in

Chart 1: Relative Performance—Coal India vs NIFTY vs International Thermal Coal prices



Source: Bloomberg, UBS Research

New mining tax bill

CIL corrected c16% in the past one month (while the Nifty was down 5%). A large part of the correction (c10%) took place post the news of the Cabinet's approval of the MMDR bill (which was approved by the GoM headed by the Finance Minister in July 2011)

As we had highlighted in our note, *India Metals & Mining: Cabinet approves draft mining bill*, published on 3 October 2011, we estimate the worst-case impact of the 26% mining tax could be a 19% cut in earnings. However, practically –

- the draft MMDR bill could see significant changes when it reaches the Parliamentary Standing Committee for further deliberations before being introduced in Parliament for a vote.
- there is a possibility of the outflow due to the mining tax being treated as an expense for tax accounting which could potentially reduce the worst-case 19% impact by one-third.
- Though our interactions with CIL management suggest that the social expenditure CIL does every year will not be set off against the mining tax, CIL has the flexibility to lower its social expenditure which was c20% of PAT in FY10/FY11 as the purpose of its social expenditure largely coincides with that of the 26% mining tax.
- CIL may pass on the burden due to the mining tax to its customers as it does with certain state/centre imposed surcharge/cess.
- Increase prices by c5-6% to totally offset the worst-case impact of 19%.

We believe most of the negative impact from the proposed mining tax is already in the price.

Wage hike

Wage negotiations for CIL (due once every five years) are underway.

We have factored in an incremental wage bill of Rs45bn (US\$1bn, +25% YoY) for FY12, but no offsetting coal price increase. We believe a large part of the potential incremental burden due to the wage hike is already in the price.

Production miss could be offset by inventory sale/higher production in H2

As we highlighted in our note, *Coal India: Missed YTD production target by 16mt*, published on 21 September 2011, CIL missed the April-August production target by 7% or c11mt (152mt versus 163mt target) due to heavy rains. YTD (April – third week of September) it missed the production target by 16mt. We are approaching the end of the monsoon and we do not expect further production target misses for the rest of the year. CIL has, however, liquidated c20mt of its pithead inventory during this period (down from 70mt at the beginning of April to 50mt by end-August).

Structural story intact...

The structural positives of CIL are intact and outweigh the recent concerns, in our view:

- (1) One of the world's lowest costs of production (<cUS\$20/t) due to favourable geological conditions
- (2) A virtual monopoly in India in a highly constrained (sector regulated by the government) and scarce resource
- (3) Sells coal at a significant discount to international prices (hence room for price hikes and margin expansion)
- (4) Significant reserve base of c64 bn tonnes (proven + indicated+ inferred) and 21.8bt of extractable reserves.

The recent price correction prices in most near-term negatives and provides an attractive buying opportunity, in our view.

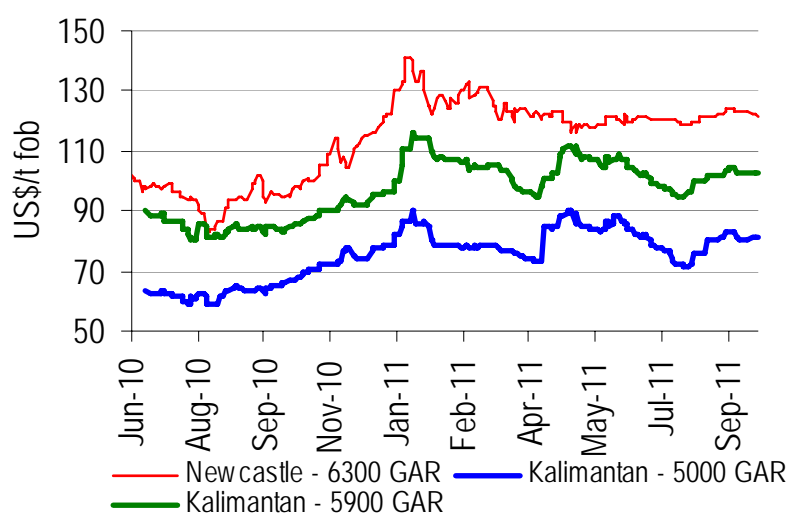
Limited correlation with global coal prices

- Coal India sells c83% of its coal at a significant discount (c50%) to international prices for comparable quality. However, it sells A & B grade volumes (c6-7% of total sales volume) at international parity.
- Additionally, it sells c11% of its volumes in e-auction. Given the significant shortage of coal in the country, we do not expect e-auction prices to fall significantly even if global coal prices decline.
- Hence, we believe Coal India is at limited risk even if there is a correction in global thermal coal prices

Thermal coal prices have remained strong

- NewCastle (6300 GAR) thermal coal prices (FOB) have increased by 0%/3% in the last 1 month/3 months to US\$121.5/t currently
- Indonesian Kalimantan (5900 GAR) thermal prices have increased by 1%/-1% in the last one month/three months to US\$102.5/t currently
- Kalimantan (5000 GAR) thermal prices have increased by 1%/-2% in the last one month/three months to US\$81/t currently
- Coal India's average GCV is 4200 kcal.

Chart 2: Thermal coal price indices (US\$/t fob)



Source: Platts

Key forecasts

We do not change our earnings forecasts for Coal India

Table 1: Key metrics

	FY11	FY12E	FY13E
Total coal sales volume (mt)*	424.5	447	467
	2%	5%	4%
-Raw coal sales (mt)	404	431	448
-Beneficiated coal sales (mt)	15	16	19
Net realisation /t	1,183	1,347	1,400
YoY growth %	10%	14%	4%
EBITDA/t	318	415	442
YoY growth %	29%	31%	7%
PAT/t	257	324	362
YoY growth %	7%	26%	12%

Source: Company data, UBS estimates Note: Raw coal equivalent sales volumes estimates for FY12/13 will be 452/473mt. CIL's targets are in raw coal equivalent terms

Table 2: Key financials

(Rs m)	FY11	FY12E	FY13E
Net revenue	502,336	601,359	653,214
YoY growth %	13%	20%	9%
EBITDA	134,791	185,143	206,168
YoY growth %	29%	37%	11%
EBITDA margin	27%	31%	32%
PAT	108,674	144,642	169,001
YoY growth %	11%	33%	17%
EPS (Rs/share)	17.2	22.9	26.8
YoY growth %	11%	33%	17%

Source: Company data, UBS estimates

Valuation

Table 3: Price target derivation

EPS - March 2013 (Rs/share)	26.76
PE multiple	15
Target price - (Rs/share)	401*

Source: UBS estimates; * Rounded off to Rs400

UBS versus consensus

Our earnings estimates are lower than consensus estimates by c3-5% for FY12/FY13.

Table 4: UBS versus consensus

Rs m	UBS estimates		Consensus		Difference	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net Sales	601,359	653,214	625,627	686,996	-3.9%	-4.9%
EBITDA	185,143	206,168	194,314	222,496	-4.7%	-7.3%
PAT	144,642	169,001	152,822	174,761	-5.4%	-3.3%

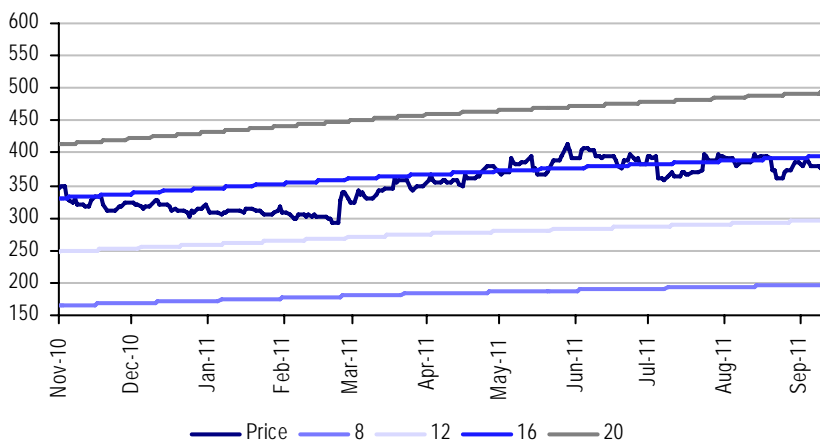
Source: UBS estimates, Bloomberg

Table 5: Global coal valuation

Company Name	Rating	Price	Price	Mkt Cap (US\$m)	Pre-exp PE(x)		EV/EBITDA		P/B		ROE%	
		Target (LC)	LC		FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Asia - India												
Coal India	Neutral	400	325	41,573	14.2	12.1	8.3	8.1	4.7	3.7	37.8	34.4
Asia - Indonesia												
Bumi Resources	Buy	3,500	1,730	4,013	15.0	7.4	2.4	3.0	16.8	4.8	42.2	101.1
Adaro Energy	Buy	3,000	1,530	5,465	9.0	6.9	3.7	4.8	2.1	1.7	26.2	27.8
Bukit Asam (PTBA)	Buy	25,000	13,950	3,589	10.3	8.0	5.1	6.2	4.1	3.3	43.1	46.1
Asia - China												
China Shenhua Energy	Buy	48	28	70,276	10.2	8.7	5.0	4.6	1.8	1.4	20.3	18.4
China Coal Energy	Buy	14	7	11,243	7.9	5.2	2.7	2.3	0.9	0.8	12.0	16.1
Global - others												
Wesfarmers Limited	Buy	33	30	33,577	14.2	13.8	7.4	7.2	1.3	1.3	9.3	9.6
Xstrata Plc	Buy	1,590	818	36,954	5.9	5.6	3.5	3.8	0.7	0.6	12.0	11.4
BHP Billiton Plc	Buy	2,725	1,778	153,017	6.4	6.8	4.1	4.3	2.0	1.7	35.4	26.5
Anglo American	Buy	3,300	2,231	41,548	5.8	5.6	4.7	4.6	1.0	0.9	19.2	17.5
Rio Tinto Plc	Buy	5,600	2,906	88,115	5.3	4.8	3.3	3.1	1.3	1.0	25.9	23.1
CONSOL Energy, Inc.	Buy	84	36	8,128	11.0	10.5	6.6	6.0	2.3	1.9	23.0	20.2
Arch Coal, Inc.	Buy	40	16	2,754	11.1	4.0	2.8	2.5	0.9	0.8	9.5	21.7
Teck Resources Ltd.	Buy	58	34	19,477	6.1	7.1	3.9	3.8	1.1	0.9	17.9	13.9
Walter Energy Inc	Buy	147	61	3,820	7.1	6.9	4.4	4.3	1.6	1.4	35.9	21.8
India Average					14.2	12.1	8.3	8.1	4.7	3.7	37.8	34.4
Indonesia average					10.9	7.6	4.1	5.4	6.4	3.2	39.4	52.6
China Average					9.4	7.9	4.5	4.1	1.7	1.3	20.4	18.9
Global - others average					6.9	6.8	4.3	4.3	1.5	1.3	25.6	21.1
Global average					7.8	7.2	4.6	4.5	1.8	1.4	24.9	21.8

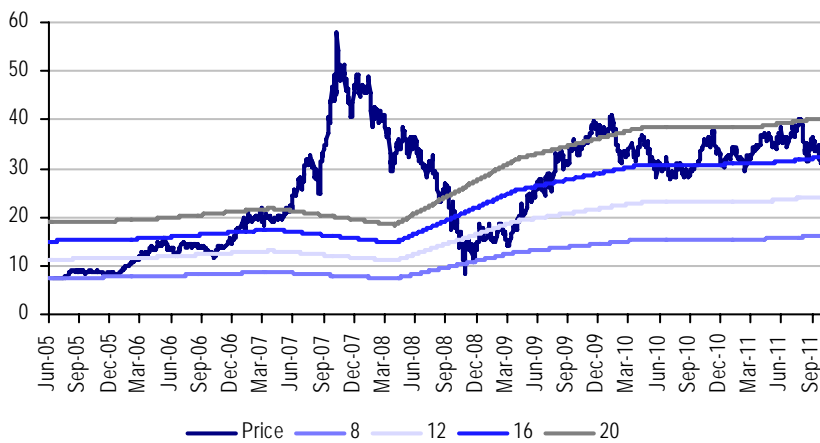
Source: Bloomberg, UBS estimates

Chart 3: Coal India PE band



Source: Bloomberg, company data, UBS estimates

Chart 4: China Shenhua Energy PE band



Source: Bloomberg, UBS estimates

We would like to thank Prashanth Kota, an employee of Cognizant Group, for his assistance in preparing this research report. Cognizant staff provide research support services to UBS.

Coal India

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	307,559	315,427	346,084	408,108	466,843	524,121	12.3	626,640	19.6	685,220	9.3
Operating expenses (ex depn)	(233,329)	(261,879)	(294,168)	(362,546)	(362,026)	(389,330)	7.5	(441,497)	13.4	(479,052)	8.5
EBITDA (UBS)	74,230	53,547	51,916	45,562	104,817	134,791	28.6	185,143	37.4	206,168	11.4
Depreciation	(13,473)	(13,578)	(15,606)	(16,909)	(13,295)	(16,729)	25.8	(17,893)	7.0	(18,905)	5.7
Operating income (EBIT, UBS)	60,757	39,969	36,310	28,653	91,523	118,062	29.0	167,250	41.7	187,263	12.0
Other income & associates	21,669	15,478	12,986	26,142	28,277	20,609	-27.1	23,621	14.6	24,798	5.0
Net interest	8,022	12,726	17,818	25,314	24,239	26,564	9.6	33,380	25.7	41,125	23.2
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	90,448	68,174	67,113	80,109	144,039	165,234	14.7	224,251	35.7	253,185	12.9
Tax	(29,655)	(26,283)	(29,537)	(39,514)	(45,745)	(55,959)	22.3	(79,609)	42.3	(84,184)	5.7
Profit after tax	60,793	41,890	37,576	40,595	98,294	109,275	11.2	144,642	32.4	169,001	16.8
Abnormal items (post-tax)	343	162	5,274	33	0	(602)	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	61,136	42,053	42,850	40,628	98,294	108,674	10.6	144,642	33.1	169,001	16.8
Net Income (UBS)	60,793	41,890	37,576	40,595	98,294	109,275	11.2	144,642	32.4	169,001	16.8
Tax rate (%)	33	39	44	49	32	34	6.6	36	4.8	33	-6.3
Pre-abnormal tax rate (%)	33	39	44	49	32	34	6.6	36	4.8	33	-6.3
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	9.68	6.66	6.78	6.43	15.56	17.21	10.6	22.90	33.1	26.76	16.8
EPS (UBS)	9.63	6.63	5.95	6.43	15.56	17.30	11.2	22.90	32.4	26.76	16.8
Net DPS	2.00	2.37	2.70	2.70	3.50	3.90	11.5	5.19	33.1	6.07	16.8
Cash EPS	11.76	8.78	8.42	9.10	17.67	19.95	12.9	25.73	29.0	29.75	15.6
BVPS	22.57	25.67	27.23	30.10	40.92	52.74	28.9	68.50	29.9	86.89	26.9
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	114,515	116,543	120,071	129,283	142,416	150,557	5.7	179,165	19.0	228,899	27.8
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	26,983	11,547	6,748	(26,024)	(25,912)	(2,677)	-89.7	6,574	-	7,091	7.9
Other liabilities	(9,328)	(9,212)	(11,259)	(12,238)	(14,774)	(16,214)	9.7	(17,024)	5.0	(17,876)	5.0
Operating invested capital	132,170	118,878	115,559	91,020	101,730	131,667	29.4	168,715	28.1	218,114	29.3
Investments	22,445	20,259	17,179	15,052	12,823	10,637	-17.1	10,637	0.0	10,637	0.0
Total capital employed	154,615	139,137	132,738	106,072	114,553	142,303	24.2	179,352	26.0	228,751	27.5
Shareholders' equity	142,536	162,131	172,007	190,081	258,453	333,120	28.9	432,622	29.9	548,820	26.9
Minority interests	0	0	0	19	221	292	32.3	240	-17.8	240	0.0
Total equity	142,536	162,131	172,007	190,100	258,673	333,412	28.9	432,862	29.8	549,060	26.8
Net debt / (cash)	(111,082)	(137,854)	(190,776)	(275,465)	(369,909)	(443,087)	19.8	(546,154)	23.3	(627,584)	14.9
Other debt-deemed items	123,161	114,859	151,507	191,436	225,789	251,978	11.6	292,644	16.1	307,275	5.0
Total capital employed	154,615	139,137	132,738	106,072	114,553	142,303	24.2	179,352	26.0	228,751	27.5
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	60,757	39,969	36,310	28,653	91,523	118,062	29.0	167,250	41.7	187,263	12.0
Depreciation	13,473	13,578	15,606	16,909	13,295	16,729	25.8	17,893	7.0	18,905	5.7
Net change in working capital	9,559	10,938	(5,053)	14,377	(12,170)	(22,945)	88.5	(9,252)	-59.7	(516)	-94.4
Other (operating)	21,526	6,046	53,307	59,847	56,130	46,987	-16.3	65,303	39.0	40,183	-38.5
Operating cash flow (pre tax/interest)	105,315	70,532	100,170	119,786	148,777	158,833	6.8	241,194	51.9	245,835	1.9
Net interest received / (paid)	8,022	12,726	17,818	25,314	24,239	26,564	9.6	33,380	25.7	41,125	23.2
Dividends paid	(14,154)	(18,875)	(19,953)	(17,054)	(22,100)	(33,954)	53.64	(45,192)	33.10	(52,803)	16.84
Tax paid	(29,661)	(23,325)	(29,297)	(27,907)	(39,990)	(56,230)	40.6	(79,609)	41.6	(84,184)	5.7
Capital expenditure	(12,446)	(15,342)	(18,350)	(18,746)	(19,804)	(24,870)	25.6	(46,500)	87.0	(68,640)	47.6
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	-	1,056	2,534	3,296	3,321	3,626	9.2	811	-77.6	851	5.0
Share issues	0	0	0	0	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	58,705	26,771	52,922	84,690	94,444	73,968	-21.7	104,083	40.7	82,185	-21.0
FX / non cash items	-	0	0	0	0	(790)	-	(1,016)	28.6	(754)	-25.8
Balance sheet (inc)/dec in net debt	-	26,771	52,922	84,690	94,444	73,178	-22.5	103,067	40.8	81,430	-21.0
Core EBITDA	74,230	53,547	51,916	45,562	104,817	134,791	28.6	185,143	37.4	206,168	11.4
Maintenance capital expenditure	(9,239)	(9,589)	(10,028)	(10,552)	(11,147)	(11,893)	6.7	(13,288)	11.7	(15,347)	15.5
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	64,992	43,958	41,888	35,010	93,670	122,898	31.2	171,855	39.8	190,821	11.0

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

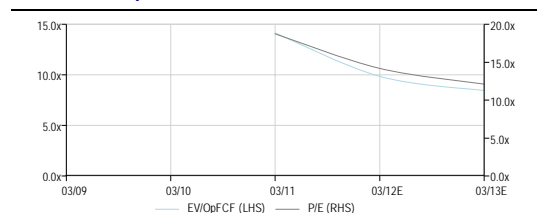
12m price target

Rs400.00

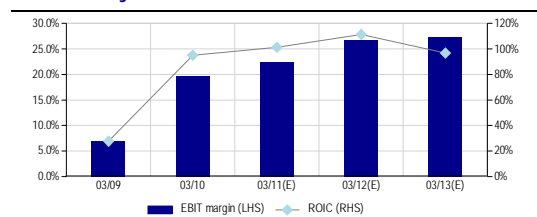
Company profile

Coal India is the largest coal company in the world (primarily thermal coal). The government owns 90% of the company. It sells its entire output (415Mt in FY10) in the domestic market. Coal India sells coal at a significant discount (55-60%) to international coal prices.

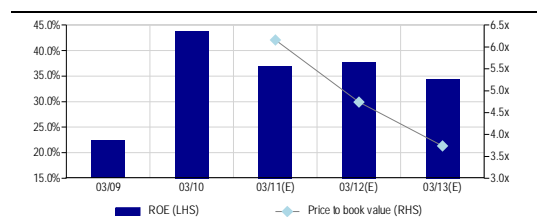
Value (EV/OpFCF & P/E)



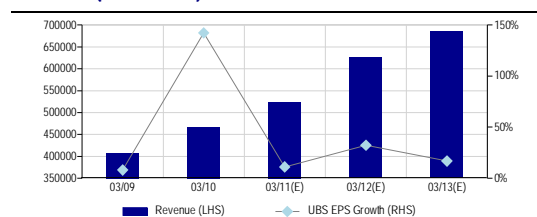
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	-	-	18.9	14.2	12.1
P/E (UBS)	-	-	-	18.8	14.2	12.1
P/CEPS	-	-	-	16.3	12.6	10.9
Net dividend yield (%)	-	-	-	1.2	1.6	1.9
P/BV	-	-	-	6.2	4.7	3.7
EV/revenue (core)	-	-	-	3.3	2.7	2.4
EV/EBITDA (core)	-	-	-	12.9	9.1	7.8
EV/EBIT (core)	-	-	-	14.7	10.1	8.6
EV/OpFCF (core)	-	-	-	14.2	9.8	8.5
EV/op. invested capital	-	-	-	NM	NM	8.3

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	-	-	2,050,805	2,050,805	2,050,805
+ minority interests	19	221	292	240	240
+ average net debt (cash)	(233,120)	(322,687)	(406,498)	(494,621)	(586,869)
+ pension obligations and other	101,647	105,648	105,648	146,314	160,945
- non-core asset value	(15,052)	(12,823)	(10,637)	(10,637)	(10,637)
Core enterprise value	-	-	1,739,611	1,692,102	1,614,485

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	11.0	17.9	14.4	12.3	19.6	9.3
EBITDA (UBS)	9.0	-12.2	130.1	28.6	37.4	11.4
EBIT (UBS)	10.8	-21.1	NM	29.0	41.7	12.0
EPS (UBS)	12.8	8.0	142.1	11.2	32.4	16.8
Cash EPS	10.7	8.1	94.1	12.9	29.0	15.6
Net DPS	15.0	0.0	29.6	11.5	33.1	16.8
BVPS	16.0	10.5	36.0	28.9	29.9	26.9

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	17.9	11.2	22.5	25.7	29.5	30.1
EBIT / revenue	13.9	7.0	19.6	22.5	26.7	27.3
Net profit (UBS) / revenue	15.0	9.9	21.1	20.8	23.1	24.7

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	-	27.7	NM	NM	NM	NM
ROIC post tax	-	14.1	64.8	66.9	71.8	64.6
Net ROE	-	22.4	43.8	36.9	37.8	34.4

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	3.3	2.4	4.4	4.4	4.4	4.4
Div. payout ratio (% , UBS EPS)	33.3	42.0	22.5	22.5	22.7	22.7
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	-	4.0	4.8	4.5	4.2	3.5
Revenue / fixed assets	-	3.3	3.4	3.6	3.8	3.4
Revenue / net working capital	-	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.1	1.2	1.0	1.0	1.0	1.0
Capex / revenue (%)	4.6	4.6	4.2	4.7	7.4	10.0
Capex / depreciation	1.2	1.1	1.5	1.5	2.6	3.6

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	NM	NM	NM	NM	NM	NM
Net debt / (net debt + equity)	NM	NM	NM	NM	NM	NM
Net debt (core) / EV	-	-	-	(23.4)	(29.2)	(36.4)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs324.70 on 05 Oct 2011 23:53 HKT Market cap(E) may include forecast share issues/buybacks.

Navin Gupta, CFA

Analyst

navin-kumar.gupta@ubs.com

+91-22-6155 6052

■ Coal India

Coal India is the largest coal company in the world (primarily thermal coal). The government owns 90% of the company. It sells its entire output (415Mt in FY10) in the domestic market. Coal India sells coal at a significant discount (55-60%) to international coal prices.

■ Statement of Risk

Coal India is a public sector enterprise and hence, may not be able to raise coal prices in line with input costs (given inflation concerns), negatively impacting earnings. Coal India is expanding capacity significantly; any delay in capacity is likely to impact earnings.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities India Private Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Securities India Private Ltd: Navin Gupta, CFA.

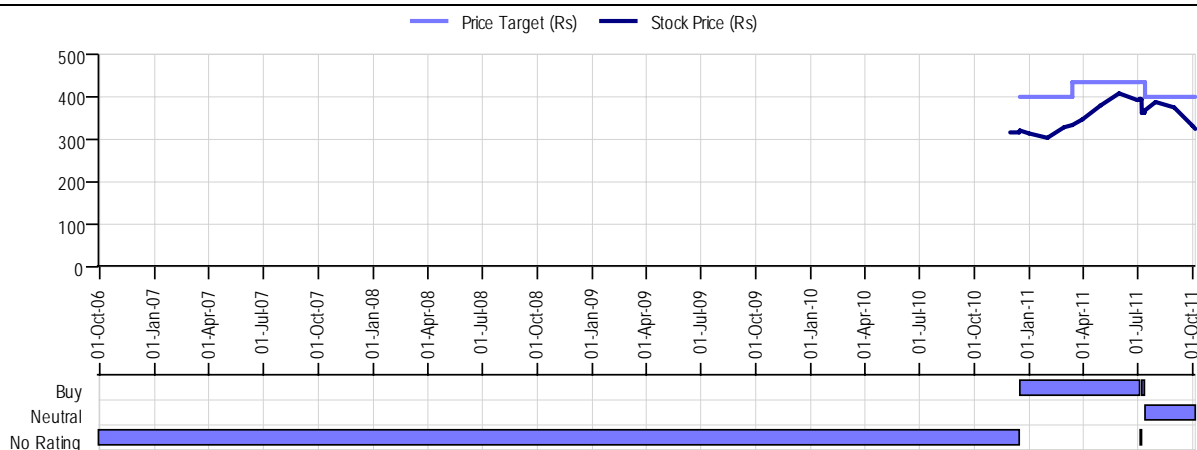
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Coal India	COAL.BO	Neutral	N/A	Rs324.70	05 Oct 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Coal India (Rs)

Source: UBS; as of 05 Oct 2011

Global Disclaimer

This report has been prepared by UBS Securities India Private Ltd, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein.

Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been effected at those prices and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions, by UBS or any other source, may yield substantially different results.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are eligible counterparties or professional clients and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, retail clients. UBS Limited is authorised and regulated by the Financial Services Authority (FSA). UBS research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Prepared by UBS Menkul Degerler AS on behalf of and distributed by UBS Limited. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at <http://www.ubs.co.za>. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate'), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd [mica (p) 039/11/2009 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte Ltd, an exempt financial advisor under the Singapore Financial Advisers Act (Cap. 110); or UBS AG Singapore branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or report. The recipient of this report represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. Where this report has been prepared by UBS Securities Japan Ltd, UBS Securities Japan Ltd is the author, publisher and distributor of the report. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services License No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd. An investment adviser and investment broker disclosure statement is available on request and free of charge by writing to PO Box 45, Auckland, NZ. **Dubai:** The research prepared and distributed by UBS AG Dubai Branch, is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This report may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (253825-x). **India :** Prepared by UBS Securities India Private Ltd. 2/F,2 North Avenue, Maker Maxity, Bandra Kuria Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431 , NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this material in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2011. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

