

2Q profit hit by wage hike

2Q profit miss on higher costs; cut EPS & PO, Neutral

Profit grew 51%YoY (-38%QoQ) to Rs25.8bn vs. our Rs27.4bn est. EBITDA was Rs24.8bn (+32%YoY) vs. our Rs27.5bn est. ASP was ahead & vols. were weak as expected but higher wage cost & other expenses led to lower PAT. We have cut our FY12-13E EPS by 4% & PO to Rs370 as we cut our vol. est. by 3.5% & lift our ASP & wage cost est. CIL is likely pricing in lower volumes to some extent, but we see limited upside triggers as CIL is likely to miss FY12 target & news flow around wage negotiations will likely remain an overhang. Hence our Neutral rating.

Volume in line, ASP 3% ahead but wage cost higher

EBITDA pre OBR was Rs29.1bn (+31%YoY, 8% below est.) 2Q coal off take was 93.7mt (-5%YoY) vs. output of 80.3mt (-11%YoY) as vols. were hit by heavy rains & internal logistics issues including transporting coal to coal loading point. ASP grew 3%QoQ to Rs1403/t. This may be led by higher e-auction revenues. Wage cost grew 17%QoQ (19% YoY, 7% ahead) as CIL started providing for wage hikes. 2Q wage cost run rate implies a 20%YoY wage cost increase in FY12.

Off take to improve in 2H, but FY12 target to be missed

Volumes have improved in Oct, but CIL is unlikely to achieve 19%YoY off take growth over the remaining months in FY12 required to meet its FY12 off take target (454mt). Rake availability has been adequate YTD, but may constrain coal offtake in 4Q when output ramps up (over 200 rakes/day needed to meet target). We cut offtake est. for FY12 to 439mt (3.5%YoY) & for FY13 to 462mt (5.3%YoY).

E-auction has resumed in Nov

E-auction was on hold in Oct & Oct e-auction quota (4mt) was offered to power cos at notified prices to ease coal shortage. E-auction has resumed in November. Though some coal (carry forward quantity from Oct quota) may be earmarked for power companies, we understand pricing will be thru e-auction.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	96,190	109,275	132,492	143,546	161,344
EPS	15.23	17.21	20.98	22.73	25.54
EPS Change (YoY)	362.9%	12.9%	21.9%	8.3%	12.4%
Dividend / Share	1.37	3.79	6.29	6.82	7.66
Free Cash Flow / Share	12.99	9.66	14.65	16.10	19.82

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	21.41x	18.95x	15.55x	14.35x	12.77x
Dividend Yield	0.420%	1.16%	1.93%	2.09%	2.35%
EV / EBITDA*	13.28x	10.47x	8.94x	8.27x	7.27x
Free Cash Flow Yield*	3.98%	2.96%	4.49%	4.94%	6.08%

* For full definitions of *iQmethod*SM measures, see page 7.

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Refer to important disclosures on page 8 to 10. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5. Link to Definitions on page 5. 11109516

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Stock Data

Price	Rs326.10
Price Objective	Rs370.00
Date Established	14-Nov-2011
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs288.95-Rs422.35
Mrkt Val / Shares Out (mn)	US\$41,093 / 6,316.4
Market Value (mn)	Rs2,059,766
Average Daily Volume	6,394,743
BofAML Ticker / Exchange	XOXC / NSI
Bloomberg / Reuters	COAL IN / COAL.BO
ROE (2012E)	34.6%
Net Dbt to Eqty (Mar-2011A)	-127.7%
Est. 5-Yr EPS / DPS Growth	14.1% / 21.5%
Free Float	10.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	400.00	370.00
2012E EPS	21.94	20.98
2013E EPS	23.73	22.73
2014E EPS	26.51	25.54
2012E EBITDA (m)	192,015.2	180,679.7
2013E EBITDA (m)	204,963.9	195,260.9
2014E EBITDA (m)	233,041.8	222,190.3

iQprofileSM Coal India Limited

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	485,801	521,849	621,604	673,949	746,212
Gross Profit	143,019	182,160	214,772	233,093	264,933
Sell General & Admin Expense	(21,430)	(27,856)	(34,093)	(37,832)	(42,742)
Operating Profit	108,295	137,575	162,601	173,834	196,563
Net Interest & Other Income	31,891	27,659	34,854	40,094	43,890
Associates	NA	NA	NA	NA	NA
Pretax Income	140,186	165,234	197,455	213,928	240,453
Tax (expense) / Benefit	(43,996)	(55,959)	(64,963)	(70,382)	(79,109)
Net Income (Adjusted)	96,190	109,275	132,492	143,546	161,344
Average Fully Diluted Shares Outstanding	6,316	6,316	6,316	6,316	6,316

Key Cash Flow Statement Data

Net Income	96,190	109,275	132,492	143,546	161,344
Depreciation & Amortization	13,295	16,729	18,079	21,427	25,628
Change in Working Capital	22,963	(30,007)	(12,971)	(9,405)	1,708
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(30,589)	(10,951)	(78)	(3,870)	(8,199)
Cash Flow from Operations	101,859	85,046	137,523	151,697	180,480
Capital Expenditure	(19,804)	(24,000)	(45,000)	(50,000)	(55,290)
(Acquisition) / Disposal of Investments	2,230	2,185	0	0	0
Other Cash Inflow / (Outflow)	27,070	28,450	35,664	40,848	44,617
Cash Flow from Investing	9,497	6,634	(9,336)	(9,152)	(10,673)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(22,100)	(27,255)	(45,312)	(49,093)	(55,180)
Cash Flow from Financing	(17,532)	(33,379)	(47,098)	(50,822)	(56,883)
Free Cash Flow	82,055	61,046	92,523	101,697	125,190
Net Debt	(369,909)	(433,543)	(515,608)	(608,306)	(722,207)
Change in Net Debt	(90,343)	(63,634)	(82,065)	(92,698)	(113,901)

Key Balance Sheet Data

Property, Plant & Equipment	120,354	122,825	127,247	167,820	219,982
Other Non-Current Assets	31,712	35,641	58,141	46,141	23,641
Trade Receivables	21,686	30,256	35,763	38,775	42,933
Cash & Equivalents	390,778	449,079	530,167	621,890	734,814
Other Current Assets	143,601	165,719	173,815	174,691	181,932
Total Assets	708,132	803,519	925,133	1,049,317	1,203,302
Long-Term Debt	20,869	15,536	14,560	13,584	12,608
Other Non-Current Liabilities	14,774	16,213	8,190	7,813	7,307
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	414,316	432,180	475,612	506,696	555,999
Total Liabilities	449,959	463,928	498,362	528,093	575,914
Total Equity	258,173	339,591	426,771	521,224	627,388
Total Equity & Liabilities	708,132	803,519	925,133	1,049,317	1,203,302

iQmethodSM - Bus Performance*

Return On Capital Employed	36.2%	32.8%	32.2%	28.9%	27.1%
Return On Equity	42.8%	36.6%	34.6%	30.3%	28.1%
Operating Margin	22.3%	26.4%	26.2%	25.8%	26.3%
EBITDA Margin	25.0%	29.6%	29.1%	29.0%	29.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.1x	0.8x	1.0x	1.1x	1.1x
Asset Replacement Ratio	1.5x	1.4x	2.5x	2.3x	2.2x
Tax Rate (Reported)	31.4%	33.9%	32.9%	32.9%	32.9%
Net Debt-to-Equity Ratio	-143.3%	-127.7%	-120.8%	-116.7%	-115.1%
Interest Cover	NM	NM	NM	NM	NM

Key Metrics

* For full definitions of **iQmethodSM** measures, see page 7.

Company Description

Coal India, the world's largest coal producer, was established in 1973 as a wholly owned subsidiary of the Government of India and was listed in Nov 2010 post divestment of 10% stake by the Govt. It has raw coal production of 431mn tons and reserves of 18.8bn tons. It mines 81% of India's production and 80% of its coal output is sold to power utilities. Its coal reserves are lower grade. Open cast mines account for 90% of its output. Low strip ratio of 1.7x drives its low cost of production.

Investment Thesis

Coal India, the largest global producer is well positioned to gain from acceleration of domestic coal demand. We expect steady volume growth, mix gains and productivity gains to drive 15% EPS CAGR over FY10-13e. Discount to global prices offer flexibility and limits downsides. However post strong 31% rally since IPO, valuations are at a premium to coal peers and slight discount to utility peers limiting upsides to valuation. Hence Neutral.

Stock Data

Price to Book Value

4.8x

Key results highlight for 2QFY12

Table 1: Coal India: Summary of 2QFY12 Results (in mn Rs.)

	2QFY12	2QFY11	YoY	1QFY12	QoQ
Revenues	131,481	110,899	19%	144,991	-9%
Operating expenditure					
Material and stores	17,911	14,518	23%	15,015	19%
Mining expenses	6,262	5,992	5%	5,799	8%
Contractual Expenses	9,645	10,554	-9%	11,059	-13%
Employee Costs	56,907	47,812	19%	48,721	17%
Social Overheads	3,368	4,970	-32%	2,933	15%
Other Expenditure	8,252	4,878	69%	7,386	12%
Over Burden	4,363	3,446	27%	5,881	-26%
Total Costs	106,708	92,170	16%	96,794	10%
EBITDA	24,773	18,729	32%	48,197	-49%
EBITDA/ton	264	189	40%	454	-42%
OBR Adj. EBITDA	29,136	22,175	31%	54,078	-46%
EBITDA/ton	311	224	39%	509	-39%
Depreciation	5,734	3,718	54%	4,308	33%
Financial Expenses	83	176	-53%	55	52%
Other Income	17,942	11,576	55%	15,589	15%
PBT	36,898	26,410	40%	59,423	-38%
Tax	11,132	9,377	19%	18,115	-39%
Tax Rate	30%	36%		30%	
PAT	25,766	17,033	51%	41,308	-38%
Exceptionals	165	-2,089		132	
Reported PAT	25,931	14,945	74%	41,439	-37%
Production (mt)	80	91	-11%	96	-17%
Dispatches (mt)	94	99	-5%	106	-12%
Realizations (Rs./t)	1,403	1,120	25%	1,365	3%

Source: Coal India, BofAML Research Estimates

Table 2: Summary of forecast changes (in mn Rs.)

	FY12E			FY13E			FY14E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Revenue	621,604	628,525	-1%	673,949	686,402	-2%	746,212	759,734	-2%
EBITDA pre OBR	212,081	220,816	-4%	227,484	236,075	-4%	259,073	268,648	-4%
OBR	31,401	28,801	9%	32,223	31,111	4%	36,883	35,606	
EBITDA/t - OBR adj.	484	486	0%	493	493	0%	531	531	0%
EBITDA - Reported	180,680	192,015	-6%	195,261	204,964	-5%	222,190	233,042	-5%
EBITDA/t - Reported	412	423	-3%	423	428	-1%	455	461	-1%
Margins	29%	31%		29%	30%		30%	31%	
Depreciation	18,079	17,701	2%	21,427	21,049	2%	25,628	25,017	2%
Interest net	-34,854	-32,189		-40,094	-39,492		-43,890	-41,499	6%
PBT	197,455	206,503	-4%	213,928	223,407	-4%	240,453	249,523	-4%
Tax	64,963	67,939	-4%	70,382	73,501	-4%	79,109	82,093	-4%
tax rate	33%	33%		33%	33%		33%	33%	
PAT	132,492	138,564	-4%	143,546	149,906	-4%	161,344	167,430	-4%
EPS	21.0	21.9	-4%	22.7	23.7	-4%	25.5	26.5	-4%
Volumes (mt)									
- Production	436.5	452.4	-3.5%	461.8	478.5	-3%	478.3	495.7	-4%
- Raw dispatches	438.5	454.4	-3.5%	461.8	478.5	-3%	488.2	505.9	-4%
Avg. Realizations (Rs./t)	1386.5	1353.5	2%	1435.3	1411.2	2%	1524.1	1497.2	2%

Source: Coal India, BofAML Research Estimates

Table 3: Summary Earnings Outlook (in mn Rs.)

	FY11A	FY12E	FY13E	FY14E
Revenue	521,849	621,604	673,949	746,212
% chg	7%	19%	8%	11%
EBITDA	154,304	180,680	195,261	222,190
Margins	30%	29%	29%	30%
EBITDA/ton	364	412	423	455
Depreciation	16,729	18,079	21,427	25,628
Non financial expense	-27659	-34854	-40094	-43890
PBT	165,234	197,455	213,928	240,453
Tax	55,959	64,963	70,382	79,109
Tax rate	34%	33%	33%	33%
PAT	109,275	132,492	143,546	161,344
EPS	17.3	21.0	22.7	25.5
% change	14%	21%	8%	12%

Source: Coal India, BofAML Research Estimates

Table 4: Summary of Key Assumptions

	FY11a	FY12e	FY13e	FY14e
Raw coal production (mt)	431.3	436.5	461.8	478.3
Raw coal despatch (mt)	424.3	438.5	461.8	488.2
Non Coking	328.7	333.1	352.2	363.0
E Auction	46.6	54.4	57.3	60.5
Coking	30.3	30.9	29.4	23.2
Washed Coal (mt)	12.9	14.3	15.7	28.7
Coking	2.9	2.9	4.3	7.4
Non Coking	10.0	11.4	11.4	21.4
Net dispatches	418.5	432.8	454.5	475.4
% chg	2%	3%	5%	5%
Realisations (Rs/t)				
Raw coal	1,157	1,343	1,375	1,417
E auction	1,959	2,214	2,302	2,394
Washed coal	2,399	2,656	3,113	3,187
Avg.	1,196	1,387	1,435	1,524
% chg	10.3%	15.9%	3.5%	6.2%

Source: Coal India, BofAML Research Estimates

Price objective basis & risk

Coal India Limited (XOXCF)

Our PO of Rs370 is set at our NPV estimate. Our NPV analysis assumes a WACC of 13% and a terminal growth of 2%. At our PO Coal India would trade at 10.5x FY12E EBIDTA (8.9x FY12 OBR adjusted EBITDA) and 9.7x FY13E (8.3x FY13e OBR adjusted EBITDA). We forecast coal volumes to grow at a CAGR of 4% over next five years

Stronger volume growth, higher realisations and lower costs pose upside risks to our valuations. Downside risks to our valuations are slower pace of environmental approvals, prohibition of coal mining in areas where CIL reserves are located, sharper than expected increase in wage costs and inability to raise prices to pass thru wage cost hikes.

Link to Definitions

Basic Materials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

I, Bhaskar N Basu, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Metals & Mining Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Banpu Pcl	BPULF	BANPU TB	Komsun Suksumrun
	Baosteel	BAOSF	600019 CH	Yongtao Shi
	China Coal Energy Ltd.	CCOZF	1898 HK	Yongtao Shi
	China Hongqiao	XCGQF	1378 HK	Bruce Wang
	China National Building Material Co Ltd.	CBUMF	3323 HK	Yongtao Shi
	China National Materials	XFCHF	1893 HK	Yongtao Shi
	China Resources Cement	CJRCF	1313 HK	Po Wei
	China Shanshui Cement	CCGLF	691 HK	Po Wei
	CITIC Dameng Holdings Limited	XCDHF	1091 HK	Yongtao Shi
	Fushan International Energy	YULKF	639 HK	Yongtao Shi
	Hidili	XHILF	1393 HK	Yongtao Shi
	Hyundai Steel	XHDUF	004020 KS	Elli Lee
	Indo Tambangraya	PTIZF	ITMG IJ	Daisy Suryo
	Jiangxi Copper	JIAXF	358 HK	Yongtao Shi
	POSCO	PKXFF	005490 KS	Elli Lee
	POSCO -A	PKX	PKX US	Elli Lee
	PT Adaro Energy Tbk	PADEF	ADRO IJ	Daisy Suryo
	Sterlite Industries India Limited	XTNDF	STLT IN	Bhaskar N Basu, CFA
	Sterlite Industries India Limited	SLT	SLT US	Bhaskar N Basu, CFA
	Straits Asia Resources Limited	SSGDF	SAR SP	Daisy Suryo
	Winsway Coking Coal Holdings Limited	XWNYF	1733 HK	Yongtao Shi
	Yanzhou Coal	YZCHF	1171 HK	Yongtao Shi
	Zijin Mining Group Co Ltd.	ZIJMF	2899 HK	Timothy Bush
NEUTRAL				
	Aluminum Corp. of China	ALMMF	2600 HK	Bruce Wang
	Anhui Conch-H	AHCHF	914 HK	Yongtao Shi
	Borneo Lumbung Energy	PBTLF	BORN IJ	Daisy Suryo
	China Shenhua Energy Ltd.	CUAEF	1088 HK	Yongtao Shi
	Coal India Limited	XOXCF	COAL IN	Bhaskar N Basu, CFA
	Hindalco	HNDFF	HNDL IN	Bhaskar N Basu, CFA
	Hyundai Hysco	HYUPF	010520 KS	Elli Lee
	Shougang Concord International	SCGEF	697 HK	Yongtao Shi
	Tambang Batubara	PBATF	PTBA IJ	Daisy Suryo
	Zhaojin Mining Industry Company Limited	ZHAOF	1818 HK	Timothy Bush
UNDERPERFORM				
	Angang Steel	ANGGF	347 HK	Yongtao Shi
	Bumi Resources	PBMRF	BUMI IJ	Daisy Suryo
	Dongkuk Steel	DKUSF	001230 KS	Elli Lee
	Intl Nickel In	PTNDF	INCO IJ	Daisy Suryo
	Jindal Steel and Power Limited	XJDLF	JSP IN	Bhaskar N Basu, CFA
	JSW Steel	XJWJF	JSTL IN	Bhaskar N Basu, CFA
	Maanshan Iron & Steel	MAANF	323 HK	Yongtao Shi
	NALCO	NAUDF	NACL IN	Bhaskar N Basu, CFA
	PT Bayan Resources Tbk	XBAYF	BYAN IJ	Daisy Suryo
	PT Indika Energy Tbk	XIDKF	INDY IJ	Daisy Suryo
	Sesa Goa Limited	XSGAF	SESA IN	Bhaskar N Basu, CFA
	Steel Authority of India	SLAUF	SAIL IN	Bhaskar N Basu, CFA
	Tata Steel	TAELF	TATA IN	Bhaskar N Basu, CFA
RVW				
	Aneka Tambang	XANEF	ANTM IJ	Daisy Suryo
	Medco Energi Itl	PTGIF	MEDC IJ	Daisy Suryo

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BoFA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BoFA Merrill Lynch.

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Important Disclosures

XOXCF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [October 31, 2011] or such later date as indicated.

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	117	66.86%	Buy	41	39.42%
Neutral	33	18.86%	Neutral	12	38.71%
Sell	25	14.29%	Sell	2	9.09%

Investment Rating Distribution: Global Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2073	54.13%	Buy	923	49.12%
Neutral	961	25.09%	Neutral	460	52.57%
Sell	796	20.78%	Sell	287	38.32%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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