

Coal India

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MCL and CCL to sell higher proportion of e-auction coal

As per India Coal Market Watch, GoI has allowed Mahanadi Coalfields (MCL) and Central Coalfields (CCL) to offer 20% of their FY12 coal supply via e-auctions. We have clarified the same with CIL's management, and conclude that the overall proportion of coal supplied by the company through e-auctions remains unchanged. While GoI has allowed both the subsidiary companies to supply a higher proportion of coal via e-auctions, it has maintained CIL's net e-auction supply at 11% of its total dispatch. Overall, we maintain our stance on the company and a HOLD on the stock with a price target of Rs 365/sh. We recommend investors to use any rally to book profits on the stock.

- ❖ **Despite approval, volume estimates remain unchanged:** In our view, despite higher rates/increased road transportation, our FY12 dispatch assumption (440mt) for CIL remains unchanged. We see bigger headwinds in the form of (1) lack of coal crushing capacity, (2) poor last-mile connectivity at coal mines, (3) seasonal factors and (4) unavoidable or uncontrollable occurrences like local strikes and agitation, naxalite problems and mine accidents.
- ❖ **Higher wage hike could impact profitability:** Our channel checks suggest that employee negotiations could end up in a wage hike of around 40–45% (vs. our expectation of 29% and street expectations of 24%). For a wage hike of 40%, our FY13 EBITDA estimate could decline by 11% and our FY13-end PT by 12% to Rs 322/sh. To compensate for this, CIL would need to hike notified prices (for the power sector) by 25-30%, which in our view is unlikely.
- ❖ **Reiterate HOLD:** We have a HOLD on the stock with a PT of Rs 365 (based on FY13E EV/EBITDA 9x), as we see limited upside from current levels. Upside risks to our recommendation are: (a) higher prices on e-auctions or washed coal, (b) price hikes to compensate wage costs, and (c) higher price hikes for power customers.

Financial highlights

Year End: 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rs mn)	4,46,152	5,02,336	5,97,468	6,68,191	7,43,219
EBITDA (Rs mn)	1,05,360	1,34,791	1,71,977	1,91,938	2,14,853
Adj. PAT (Rs mn)	96,224	1,08,673	1,39,623	1,56,489	1,78,525
Adj. EPS (Rs)	15.2	17.2	22.1	24.8	28.3
Growth (%)	362.9	12.9	28.5	12.1	14.1
DPS (Rs)	3.5	5.7	4.0	4.0	4.0
ROIC (%)	27.6	28.2	36.5	38.7	38.2
ROE (%)	43.0	36.8	36.0	30.9	27.7
P/E (x)	20.7	20.1	15.6	14.0	12.2
EV/EBITDA (x)	15.2	12.8	9.4	7.6	6.2
P/BV (x)	7.7	6.6	4.9	3.8	3.0

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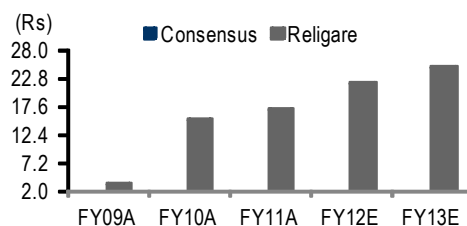
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CMP	Rs 346
Target	Rs 365
Previous	Rs 365
Rating	HOLD
Previous	HOLD
% Upside / (Downside)	6%
+ Dividend yield	1%
Total return	7%

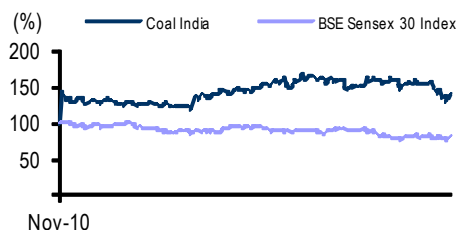
Company data

Market cap (Rs mn / US\$ mn)	21,83,883 / 44,591
Outstanding equity shares (mn)	6,316.4
BVPS (Rs)	70
Free float (%)	0.1
52-week high / low (Rs)	414 / 245
2-month avg. daily vol (mn)/ value (US\$ mn)	5 / 36
ADR/GDR premium (%)	

EPS (Religare vs Consensus) comparison



Stock performance



Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Total revenue	4,46,152	5,02,336	5,97,468	6,68,191	7,43,219
EBITDA	1,05,360	1,34,791	1,71,977	1,91,938	2,14,853
EBIT	92,066	1,18,062	1,53,601	1,71,492	1,92,694
Interest	26,054	23,282	26,701	33,253	43,988
Other income/(Expense)	22,067	23,891	22,051	22,051	22,051
Exceptional items	(537)	(602)	0	0	0
EBT	1,39,649	1,64,632	2,02,352	2,26,795	2,58,732
Income taxes	(43,425)	(55,959)	(62,729)	(70,307)	(80,207)
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	0	0	0	0	0
Reported net profit	96,224	1,08,673	1,39,623	1,56,489	1,78,525
Adjustments	0	0	0	0	0
Adjusted net profit	96,224	1,08,673	1,39,623	1,56,489	1,78,525

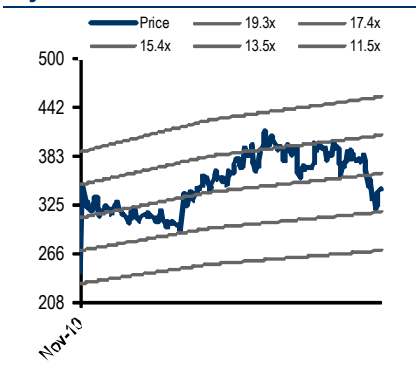
Balance sheet

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Accounts payable	3,74,816	3,91,931	4,02,965	4,50,462	4,99,909
Other current liabilities	0	0	0	0	0
Provisions	39,487	56,761	98,069	99,867	1,09,768
Debt funds	20,869	15,536	16,000	16,000	16,000
Other liabilities	15,010	16,540	17,127	19,152	21,246
Equity capital	63,164	63,164	63,164	63,164	63,164
Reserves & surplus	1,94,789	2,70,008	3,80,071	5,06,999	6,55,964
Shareholder's funds	2,57,952	3,33,172	4,43,235	5,70,163	7,19,128
Total liabilities	7,08,134	8,13,939	9,77,395	11,55,644	13,66,051
Cash and cash eq	3,90,778	4,58,623	5,76,248	7,29,171	8,69,855
Accounts receivable	21,686	30,256	27,827	31,121	34,616
Inventories	44,018	55,856	42,559	36,613	69,231
Other current assets	86,762	99,225	1,26,594	1,37,960	1,52,811
Investments	12,821	10,637	9,821	8,821	7,821
Net fixed assets	1,21,556	1,29,740	1,48,345	1,73,899	1,89,799
CWIP	20,909	20,869	46,000	38,059	41,918
Intangible assets	0	0	0	0	0
Deferred tax assets, net	9,604	8,732	0	0	0
Other assets	0	0	0	0	0
Total assets	7,08,134	8,13,939	9,77,395	11,55,644	13,66,051

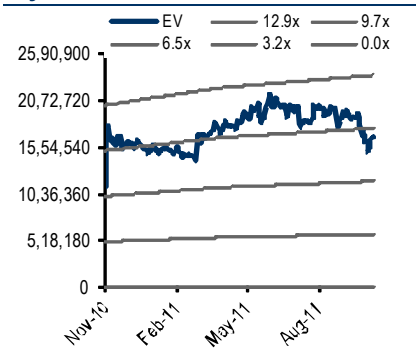
Cash flow statement

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Net income + Depreciation	1,09,519	1,25,402	1,57,999	1,76,935	2,00,684
Interest expenses	886	791	871	1,200	1,200
Non-cash adjustments	0	0	0	0	0
Changes in working capital	21,793	(7,237)	6,327	36,030	1,578
Other operating cash flow	1,714	6,292	23,892	8,777	11,101
Cash flow from operations	1,33,912	1,25,249	1,89,088	2,22,942	2,14,563
Capital expenditure	(19,804)	(24,874)	(62,112)	(38,059)	(41,918)
Change in investments	2,230	0	0	0	0
Other investing cash flow	0	0	0	0	0
Cash flow from investing	(17,573)	(24,874)	(62,112)	(38,059)	(41,918)
Issue of equity	0	0	0	0	0
Issue/repay debt	(616)	(5,333)	464	0	0
Interest expenses	(2,331)	(1,582)	(1,741)	(2,400)	(2,400)
Dividends paid	(22,100)	(32,854)	(7,748)	(29,561)	(29,561)
Other financing cash flow	2,536	7,239	(326)	0	0
Cash flow from financing	(22,512)	(32,530)	(9,351)	(31,961)	(31,961)
Change in cash & cash eq	93,828	67,845	1,17,625	1,52,923	1,40,684
Closing cash & cash eq	3,90,778	4,58,623	5,76,248	7,29,171	8,69,855

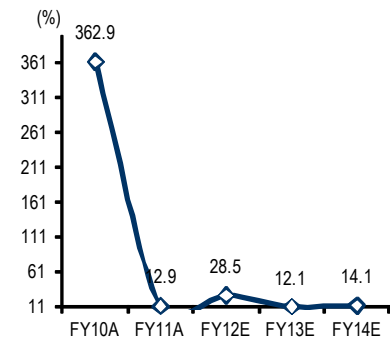
1-yr fwd P/E band



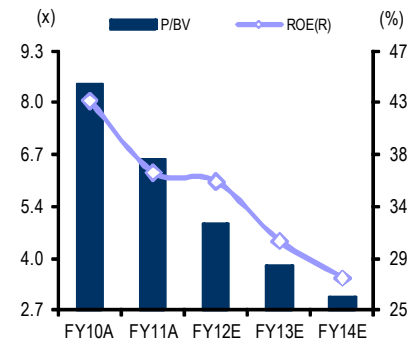
1-yr fwd EV/EBITDA band



EPS growth



ROE vs P/BV



Per share data

Y/E 31 Mar (Rs)	FY10A	FY11A	FY12E	FY13E	FY14E
Reported EPS	15.2	17.2	22.1	24.8	28.3
Adjusted EPS	15.2	17.2	22.1	24.8	28.3
DPS	3.5	5.7	4.0	4.0	4.0
BVPS	40.8	52.7	70.2	90.3	113.9

Valuation ratios

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E	FY14E
EV/Sales	3.6	3.4	2.7	2.2	1.8
EV/EBITDA	15.2	12.8	9.4	7.6	6.2
P/E	20.7	20.1	15.6	14.0	12.2
P/BV	7.7	6.6	4.9	3.8	3.0

Financial ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Profitability & Return ratios (%)					
EBITDA margin	23.6	26.8	28.8	28.7	28.9
EBIT margin	20.6	23.5	25.7	25.7	25.9
Net profit margin	21.6	21.6	23.4	23.4	24.0
ROE	43.0	36.8	36.0	30.9	27.7
ROCE	25.9	24.8	26.2	22.6	20.1
Working Capital & Liquidity ratios					
Receivables (days)	16	19	18	16	16
Inventory (days)	46	53	45	32	39
Payables (days)	371	405	364	349	350
Current ratio (x)	1.3	1.4	1.5	1.7	1.8
Quick ratio (x)	1.2	1.3	1.5	1.6	1.7
Turnover & Leverage ratios (x)					
Gross asset turnover	1.3	1.4	1.5	1.5	1.6
Total asset turnover	0.7	0.7	0.7	0.6	0.6
Interest coverage ratio	103.9	149.3	176.4	142.9	160.6
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

Quarterly trend

Particulars	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Revenue (Rs mn)	n.a.	n.a.	1,26,919	1,50,162	1,44,991
YoY growth (%)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)
QoQ growth (%)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)	18.3	(3.4)
EBITDA (Rs mn)	n.a.	n.a.	33,760	51,949	48,197
EBITDA margin (%)	n.a.	n.a.	26.6	34.6	33.2
Adj PAT (Rs mn)	n.a.	n.a.	26,261	42,367	41,439
YoY growth (%)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)
QoQ growth (%)	0.0;(0.0)	0.0;(0.0)	0.0;(0.0)	61.3	(2.2)

DuPont analysis

(%)	FY10A	FY11A	FY12E	FY13E	FY14E
Tax burden (Net income/PBT)	68.9	66.0	69.0	69.0	69.0
Interest burden (PBT/EBIT)	151.7	139.4	131.7	132.2	134.3
EBIT margin (EBIT/Revenue)	20.6	23.5	25.7	25.7	25.9
Asset turnover (Revenue/Avg TA)	67.0	66.0	66.7	62.7	58.9
Leverage (Avg TA/Avg equity)	297.2	257.5	230.7	210.5	195.6
Return on equity	43.0	36.8	36.0	30.9	27.7

Company profile

CIL, a state-owned company, was established in 1973 and is the largest coal producer in the world (based on raw coal output), with a dominant 82% market share. CIL also holds the world's largest coal reserves with proven resources of 52.5 billion tonnes and meets as much as 42% of India's primary commercial energy requirements.

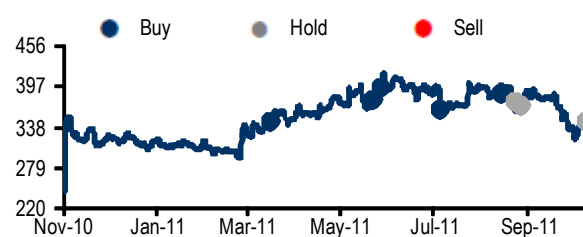
Shareholding pattern

(%)	Dec-2010	Mar-2011	Jun-2011
Promoters	90.0	90.0	90.0
FIs	6.1	6.1	6.4
Banks and FIs	1.7	1.7	1.6
Public	2.2	2.2	2.1

Recommendation history

Date	Event	Reco price	Tgt price	Reco
18-Mar-11	Initiating Coverage	344	400	Buy
25-May-11	Results Review	377	400	Buy
30-May-11	Alert	395	400	Buy
08-Jul-11	Alert	363	400	Buy
16-Aug-11	Results Review	387	400	Buy
25-Aug-11	Company Update	375	365	Hold
29-Aug-11	Alert	369	365	Hold
11-Oct-11	Company Update	346	365	Hold

Stock performance



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Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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