

Coal India

First cut - PAT beat driven by higher Other Income;
lower Social Overheads - ALERT

- **PAT beat driven by higher OI, lower Social Overheads:** COAL reported consolidated PAT of Rs41.4bn (+64% y/y, -3% q/q) vs JPMe Rs36.5bn and BBRG consensus of Rs36.3bn. EBITDA came in at Rs51.2bn (+65% y/y, -8% q/q) vs JPMe of Rs47.6bn and BBRG consensus of Rs48.6bn. While sales at Rs145bn were broadly in line with estimates, the EBITDA beat was essentially driven by sharply lower 'Social Overheads' which declined 58% q/q and 37% y/y and were Rs2.7bn lower than our estimate, accounting for 74% of the EBITDA beat vs our numbers. We expect to get more clarity on the steady-state run-rate for Social Overheads in tomorrow's analyst meet. Other Income stood at Rs15.6bn (+33% q/q) against our estimate of Rs12bn. COAL has not disclosed the net cash balance for 1Q FY12 and hence the implied yield on investment cannot be calculated. Lastly, the tax rate at 30% was lower than our estimate of 32%. The EBITDA margin at 35%, while lower than 4Q FY11 record level of 37%, was the second-highest in the company's short reporting history and 200bp ahead of our estimate of 33%.
- **ASP/MT +4.4% q/q:** 1Q FY12 was the first full quarter post the 30% price increases implemented by COAL. ASP/MT increased 4.4% q/q, given the one-offs in the March quarter. Production and sales volumes at 96/106MT were in line with our estimates and were up 1/5% y/y respectively. E-auction coal volumes at 11.39MT, while up on a y/y basis (9.3MT), were down on a q/q basis and stood at 10.7% of coal sales volume vs 11.5% in 4Q.
- **Cost items - Employee costs continued to move up:** The key cost item – employee costs – increased 6% q/q and at Rs48.7bn were up 12% y/y (JPMe at Rs46.4bn). From here COAL would likely provide for the wage rise and we expect clarity from the management on the quantum of wage increase provisions in the analyst meet. The second-largest cost item – contractual expenses – was 8% lower than our estimate. The opaque other expenditure was also lower than our estimate.
- **Overall while there was a 13% PAT beat, we believe underlying earnings are broadly in-line, adjusted for the other income and tax rate. COAL has held up well in the recent down move across equities and the PAT beat should be broadly supportive of the stock price. However, given that from here ASP is likely to remain flat (unless COAL takes another price increase), margins should decline with the higher wage bill and the recent diesel price increase which would impact costs.**
- COAL is holding an analyst meet tomorrow.

See page 3 for analyst certification and important disclosures, including non-US analyst disclosures.

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Underweight

COAL.BO, COAL IN

Price: Rs386.25

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Metals & Mining

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Table 1: COAL: 1Q earnings summary

Rs MM, %

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	% q/q	% y/y
Net Sales	114,356	110,899	126,919	150,162	144,991	-3%	27%
(Acc)/Dec in stock	80	2,136	-1,521	-13,229	3,690		
Internal consumption of coal	-136	-318	0		0	-100%	-100%
Consumption of stores	10,720	12,700	13,535	15,360	11,325	-26%	6%
Employee costs	43,363	47,812	45,001	45,935	48,721	6%	12%
Power & fuel	4,330	4,278	4,643	4,295	4,627	8%	7%
Contractual expenses	10,118	10,554	11,473	13,655	11,059	-19%	9%
Overburden removal adj.	4,333	3,446	6,939	11,466	5,881	-49%	36%
Social Overhead	4,683	4,970	5,626	7,010	2,933	-58%	-37%
Repairs	1,518	1,714	1,485	1,262	1,173	-7%	-23%
Other expenses	4,288	4,250	5,250	8,289	4,379	-47%	2%
Total expenses	83,297	91,542	92,430	94,497	93,787	-1%	13%
EBITDA	31,060	19,357	34,489	55,665	51,204	-8%	65%
EBITDA margin	27%	17%	27%	37%	35%		
Interest expenses	567	177	285	-239	97		
Depreciation	4,094	3,775	4,136	4,724	4,308	-9%	5%
Impairment	18	-74	44	13			
Provision/write-off	690	767	685	3,637	2,965	-18%	330%
Other income	11,777	11,576	12,876	11,733	15,589	33%	32%
PBT	37,468	26,289	42,214	59,263	59,423	0%	59%
Prior period adjustment	-111	-503	-158	772	132		
Tax	12,098	10,841	15,796	17,224	18,115	5%	50%
PAT	25,259	14,944	26,261	42,811	41,439	-3%	64%
Tax rate	32%	41%	37%	29%	30%		
Production	95	91	114	132	96	-27%	1%
Dispatches	101	99	110	115	106	-8%	5%
Realization/MT	1,133	1,124	1,154	1,307	1,365	4.4%	20%
EBITDA/MT	308	196	314	485	482	-1%	57%

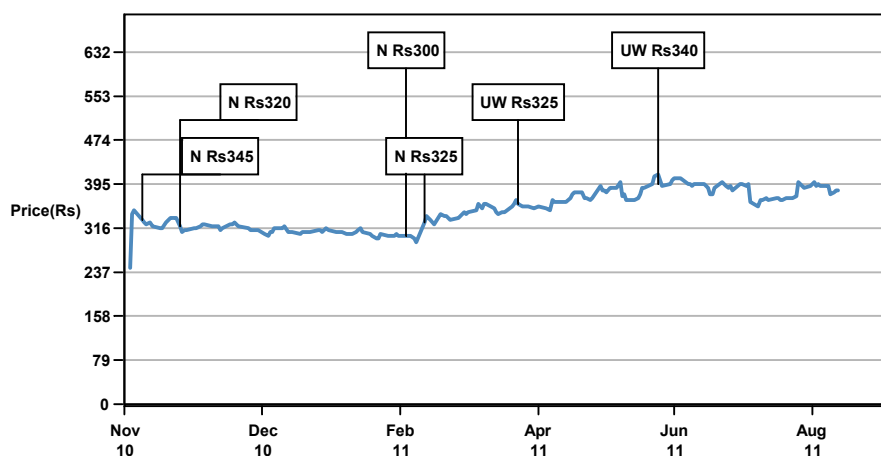
Source: Company reports and J.P. Morgan estimates.

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Coal India (COAL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
08-Nov-10	N	330.75	345.00
23-Nov-10	N	320.15	320.00
21-Feb-11	N	302.35	300.00
28-Feb-11	N	327.70	325.00
07-Apr-11	UW	359.65	325.00
01-Jun-11	UW	394.95	340.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Nov 08, 2010.

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