

Coal India (COAL.BO)

Alert: 2QFY13 – Higher Volumes; Lower E-auction Realisations

■ Company Update

- PAT rises 19% yoy** — Coal India's (CIL) 2QFY13 PAT rose to Rs30.8bn (5% ahead of Citi est). Benefits of strong volumes and higher yoy FSA realisations were offset by lower e-auction prices and higher costs (wages). EBITDA margin was 22% vs 21% last year (31% in 1QFY13). Other income (excl. recovery of transportation costs) rose 22% yoy to Rs17.7bn. Cash as of 30Sep12 was ~\$12bn (Rs103/sh).
- Strong volumes** — 2Q production rose 11% yoy to 89mt in 2Q (CIL's target 96mt); despatches grew 8.5% to 102mt (CIL's target 108mt). CIL liquidated ~13mt of inventory in 1Q (23mt in 1H out of 70mt). Rake availability in 2Q was ~162/day (vs. 145 last year). Despatches via rail rose 12% yoy and deliveries to the power sector were up 13% yoy. CIL's FY13 production target is 464mt; despatch 470mt. Citi est: production 460mt (+5.5%); despatches 464mt (+7.1%); >190 rakes/day in 2HFY13.
- E-auction prices weak** — CIL's 2Q realizations rose 2% yoy to Rs1,432 (\$26), but fell 2% qoq. 1) FSA realisations rose 2% qoq (+5% yoy). 2) E-auction prices fell 6% yoy; 11% qoq to Rs2,282 (\$42/t) due to a poor grade mix and the impact of weak global prices. E-auction sales were 12% of despatches. Our e-auction price forecast for FY13 is Rs2,900/t. If e-auction realisations remain at 1H levels (Rs 2,430/t) through 2HFY13, FY13 PAT would fall by 10% (ceteris paribus). CIL expects higher e-auction prices in 3Q – higher grade coal; better demand.
- Higher wages** — Employee costs rose 15% yoy to Rs65bn due to wage revision effective Jul11. CIL benefited from lower depreciation and reversal of bad debt provisioning during the quarter.
- Reiterate Buy** — CIL is relatively insulated from global price trends; with improving volumes (despatches up 8.6% yoy in Apr-Oct12 after two years of muted growth) and odds favoring faster clearances. The stock trades at 10x FY14E PE (excl OBR adj) vs. Asian peers' 9-12x. It has underperformed the Sensex by 7% in the last three months. Recommend Buy.

Buy	1
Price (09 Nov 12)	Rs346.25
Target price	Rs400.00
Expected share price return	15.5%
Expected dividend yield	3.2%
Expected total return	18.7%
Market Cap	Rs2,187,041M
	US\$40,229M

Price Performance
(RIC: COAL.BO, BB: COAL IN)



Figure 1. Coal India – Statistical Abstract

YE 31 Mar	Net Profit (Rsm)	EPS (Rs)	EPS excl OBR (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY10	96,190	15.6	18.9	147%	18.4	15.4	38%
FY11	112,427	17.2	19.9	6%	17.4	11.9	33%
FY12E	147,104	23.4	27.5	38%	12.6	9.5	35%
FY13E	168,021	26.6	31.1	13%	11.2	7.7	33%
FY14E	183,565	29.1	33.9	9%	10.3	6.4	29%
FY15E	199,243	31.5	36.7	8%	9.5	5.3	26%

Source: Citi Research estimates. Price as of 9th November 2012, P/E excludes OBR.

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2QFY13 Results

Figure 2. Coal India – 2QFY13 Results

(Rs m)	2QFY13	2QFY12	%chg yoy	1QFY13	%chg qoq
Net sales	145,725	131,481	11%	165,006	-12%
Personnel expenses	65,364	57,003	15%	61,301	7%
Total operating expenses	113,922	103,300	10%	113,400	0%
EBITDA	31,804	28,181	13%	51,606	-38%
EBITDA margin (%)	21.8%	21.4%		31.3%	
Other income (excl transportation charges recovered)	17,741	14,579	22%	17,254	3%
Depreciation	3,872	5,734	-32%	5,356	-28%
EBIT	45,673	37,027	23%	63,504	-28%
Interest expenses	102	128	-20%	126	-19%
PBT	45,571	36,898	24%	63,378	-28%
Prior Period Adjustments	-195	92		-103	
Total Tax	14,703	11,132	32%	18,582	-21%
-Tax rate (%)	32.4%	30.1%		29.4%	
Extraordinary items (net of tax)	107.4	73.3		-	
Reported PAT	30,781	25,931	19%	44,693	-31%
Production (m tonnes)	89.07	80.32	11%	102.47	-13%
Despatches (m tonnes)	101.74	93.73	9%	113.04	-10%

Source: Company Reports, Citi Research

Coal India

Valuation

Our TP is derived using a combination of two scenarios: #1 assumes no profit sharing - derived price Rs416; #2 assumes 26% profit sharing in FY14 and beyond (based on our interactions with the Ministry of Mines) - derived price Rs384; with a 50:50 weighting. CIL does not have a long valuation history since it listed in Nov 2010. We arrive at our TP of Rs400 using: (1) a valuation based on DCF+30% premium (Rs504) and (2) 9x FY13 PE based valuation (Rs243); with a 60/40 weighting. The 9x multiple lies at the top end of the current trading range (6-9x) of the Indonesian and Chinese coal producers. At our TP, CIL would trade at 12.3x Sep13PE (excl OBR adj).

Risks

Key downside risks to our investment thesis on CIL are: risks of restrictions imposed by regulators related to forest clearance and environmental safeguards; difficulties in obtaining reserves/resources; a proposed 26% profit-sharing requirement contained in the New Mining Bill; land acquisition; ban on e-auction coal; logistical constraints including rail transport bottlenecks; restricted ability to raise coal prices; coal imports without a pass through; unrelated investments; disruption of operations in politically unstable areas; auction for future reserves; and non-availability of critical equipment.

Appendix A-1

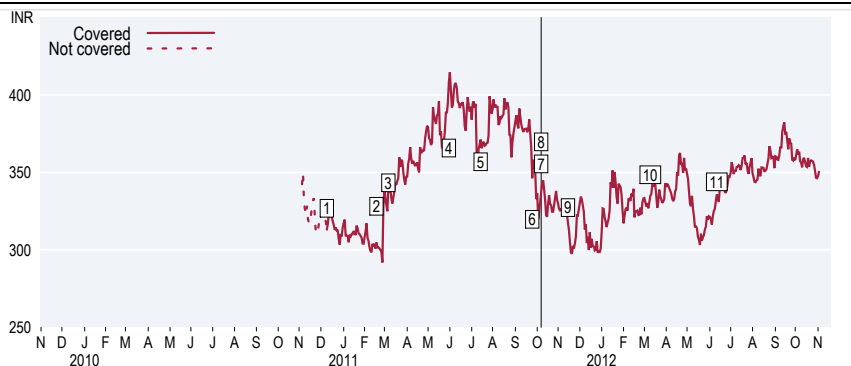
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Covered since December 9 2010



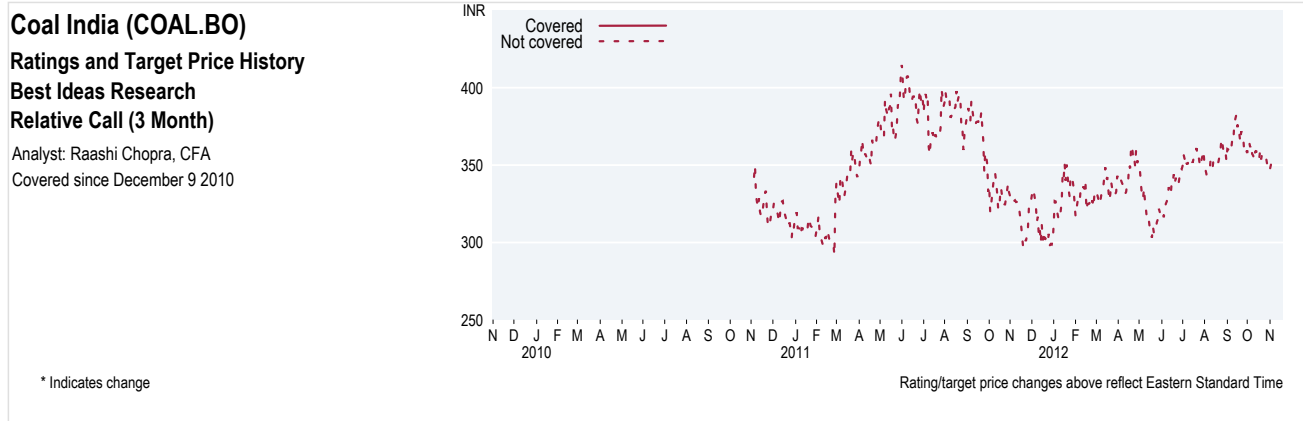
	Date	Rating	Target Price	Closing Price
1	9-Dec-10	*1L	*358.00	313.10
2	17-Feb-11	1L	*350.00	304.80
3	7-Mar-11	1L	*395.00	340.95
4	31-May-11	1L	*471.00	408.45

	Date	Rating	Target Price	Closing Price
5	14-Jul-11	1L	*430.00	371.20
6	26-Sep-11	1L	*418.00	346.20
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*1	418.00	337.25

	Date	Rating	Target Price	Closing Price
9	15-Nov-11	1	*380.00	317.60
10	9-Mar-12	1	*375.00	334.85
11	12-Jun-12	1	*400.00	335.75

* Indicates change

Rating/target price changes above reflect Eastern Standard Time



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