

Coal India

Performance Highlights

Y/E March (₹ cr)	3QFY12	3QFY11	% chg (yoy)	2QFY12	% chg (qoq)
Total operating income	15,349	12,687	21.0	13,148	16.7
EBITDA	4,875	3,466	40.6	2,750	77.3
EBITDA margin (%)	31.8	27.3	444bp	20.9	1,085bp
Adjusted PAT	4,043	2,634	53.5	2,588	56.2

Source: Company, Angel Research

Coal India's (CIL) 3QFY2012 top-line was below our expectations; however, bottom-line beat our estimates on account of lower-than-expected staff cost and higher-than-expected other income. **We maintain our Neutral view on the stock.**

Higher realization aids net sales growth CIL's 3QFY2012 net sales increased by 21.0% yoy to ₹15,349cr (below our estimate of ₹17,664cr) primarily due to higher average realization. Blended average realization on coal sales increased by 21.2% yoy to ₹1,392/tonne; however, offtake stood flat yoy at 110mn tonnes. Production grew by 1.4% yoy to 115mn tonnes.

Other income boosts bottom-line growth: CIL's EBITDA per tonne increased by 40.9% yoy to ₹442 in 3QFY2012 on account of higher realization. The company's EBITDA increased by 40.6% yoy to ₹4,875cr, representing an EBITDA margin of 31.8%. Other income grew by 48.4% yoy to ₹1,856cr on account of higher cash balance and increased treasury yield. Hence, adjusted net income grew by 53.5% yoy to ₹4,043cr (above our estimate of ₹3,650cr).

Outlook and valuation: CIL's 9MFY2012 production stood at 291mn tonnes; hence, it is unlikely to meet its FY2012 production target of 440mn tonnes in our view. Further, we believe that infrastructural bottlenecks (mainly availability of railway rakes) are likely to result in only 2.5% and 4.9% yoy growth in sales volumes during FY2012 and FY2013, respectively. Moreover, higher staff costs are expected to hit CIL's operating margins during FY2013. Hence, **we maintain Neutral rating on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	44,615	50,234	60,669	65,654
% chg	9.3	12.6	20.8	8.2
Net profit	9,834	10,867	15,583	16,076
% chg	142.1	10.5	43.4	3.2
EPS (₹)	15.6	17.2	24.7	25.5
EBITDA margin (%)	24.1	28.0	28.8	26.8
P/E (x)	21.8	19.7	13.8	13.3
P/BV (x)	8.3	6.4	4.7	3.7
RoE (%)	43.8	36.7	39.7	31.4
RoCE (%)	36.3	37.6	36.6	28.5
EV/Sales (x)	3.9	3.4	2.6	2.3
EV/EBITDA (x)	16.4	12.0	9.0	8.4

Source: Company, Angel Research

NEUTRAL

CMP ₹339
 Target Price -

Investment Period -

Stock Info

Sector	Mining
Market Cap (₹ cr)	214,409
Beta	0.6
52 Week High / Low	422/289
Avg. Daily Volume	638,645
Face Value (₹)	10
BSE Sensex	18,202
Nifty	5,532
Reuters Code	COAL.BO
Bloomberg Code	COAL@IN

Shareholding Pattern (%)

Promoters	90.0
MF / Banks / Indian FIs	1.8
FII / NRIs / OCBs	5.5
Indian Public / Others	2.6

Abs. (%)	3m	1yr	3yr
Sensex	7.8	(0.4)	88.9
CIL	6.9	11.7	-

Note: Coal India was listed on Nov. 4, 2010

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Exhibit 1: 3QFY2012 performance

Y/E March (₹ cr)	3QFY12	3QFY11	yoy %	2QFY12	qoq%
Net sales	15,349	12,687	21.0	13,148	16.7
Raw material	1,355	1,235	9.7	1,791	(24.3)
% of net sales	8.8	9.7		13.6	
Staff cost	5,622	4,670	20.4	5,691	(1.2)
% of net sales	36.6	36.8		43.3	
Power & Fuel	496	463	7.1	525	(5.4)
% of net sales	3.2	3.7		4.0	
Social Overhead	347	340	1.9	337	2.9
% of net sales	2.3	2.7		2.6	
Contractual Expenses	1,248	1,165	7.1	965	29.4
% of net sales	8.1	9.2		7.3	
Overburden removal adjustment	761	694	9.7	436	74.4
% of net sales	5.0	5.5		3.3	
Other Expenses	490	509	(3.8)	548	(10.6)
% of net sales	3.2	4.0		4.2	
Total expenditure	10,319	9,077	13.7	10,292	0.3
% of net sales	67.2	71.5		78.3	
Operating profit	4,875	3,466	40.6	2,750	77.3
OPM (%)	31.8	27.3		20.9	
Other operating income	-	-		-	
EBITDA	4,875	3,466	40.6	2,750	77.3
EBITDA margins (%)	31.8	27.3		20.9	
Interest	8	8	(2.9)	8	(8.3)
Depreciation	526	431	22.0	573	(8.3)
Other income	1,856	1,251	48.4	1,794	3.4
Provisions	333	67		273	22.1
Exceptional items	5	(12)		9	(43.1)
Profit before tax	5,870	4,198	39.8	3,699	58.7
% of net sales	38.2	33.1		28.1	
Tax	1,832	1,577	16.2	1,113	64.6
% of PBT	31.2	37.6		30.1	
Rep. Net income	4,038	2,622	54.0	2,595	55.6
% of net sales	26.3	20.7		19.7	
Adjusted PAT	4,043	2,634	53.5	2,588	56.2

Source: Company, Angel Research

Exhibit 2: 3QFY2012 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	15,349	17,664	(13.1)
EBITDA	4,875	4,328	12.7
EBITDA margin (%)	31.8	24.5	726bp
Adjusted PAT	4,038	3,650	10.6

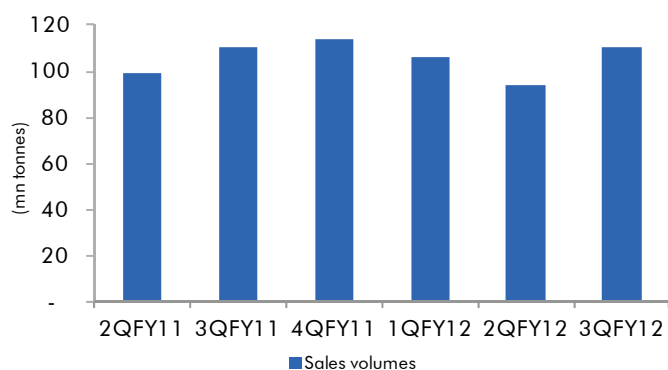
Source: Company, Angel Research

Result highlights

Higher realization aided net sales growth

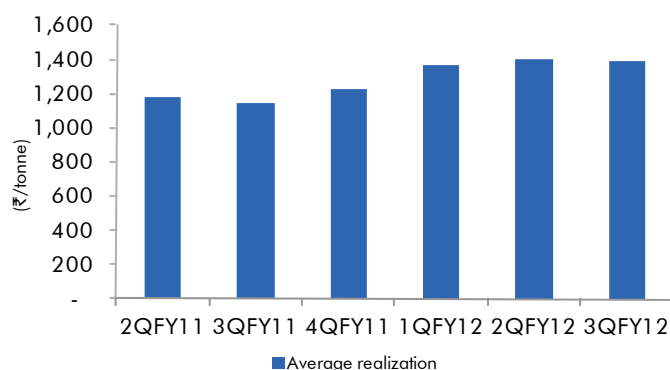
Coal India's 3QFY2012 net sales increased by 21.0% yoy to ₹15,349cr (below our estimate of ₹17,664cr) primarily due to higher average realization. Blended average realization on coal sales increased by 21.2% yoy to ₹1,392/tonne; however, offtake stood flat yoy at 110mn tonnes. Production grew by 1.4% yoy to 115mn tonnes.

Exhibit 3: Sales volumes stood at 110mn tonnes...



Source: Company, Angel Research

Exhibit 4: ...while realization stood at ₹1,392 /tonne



Source: Company, Angel Research

Higher realization aids EBITDA growth

EBITDA per tonne increased by 40.9% yoy to ₹442 in 3QFY2012 on account of higher realization. The company's EBITDA increased by 40.6% yoy to ₹4,875cr, representing EBITDA margin of 31.8%. CIL's EBITDA was higher than our expectation on account of lower staff costs provision for 3QFY2012. However, its 4QFY2012 staff cost provision is expected to be much higher.

CIL's other income grew by 48.4% yoy to ₹1,856cr on account of higher cash balance and increased treasury yield. The company reported exceptional loss of ₹5cr in 3QFY2012 and gain of ₹12cr in 3QFY2011. Adjusted net income grew by 53.5% yoy to ₹4,043cr (above our estimate of ₹3,650cr).

Exhibit 5: Per tonne analysis

(₹/tonne)	3QFY12	3QFY11	yoy %	2QFY12	qoq %
Production (mn tonnes)	115	113	1.4	96	19.0
Sales (mn tonnes)	110	110	(0.2)	106	4.0
Revenue	1,392	1,148	21.2	1,368	1.8
Cost	936	822	13.9	874	7.1
Raw-material expenses	123	112	9.9	142	(13.3)
Staff costs	510	423	20.6	460	10.9
Power and fuel	45	42	7.3	44	3.1
Social overhead	31	31	2.1	28	13.6
Contractual expenses	113	105	7.3	104	8.5
Overburden removal adjustment	69	63	9.9	55	24.4
Other expenses	44	46	(3.6)	41	7.5
EBITDA	442	314	40.9	483	(8.4)

Source: Company, Angel Research

PM initiates action to address coal supply issues

The honorable Prime Minister has approved suggestions made by the Secretary level Committee to solve coal deficit issues faced by Power sector. As per the approved suggestions, CIL will sign Fuel Supply Agreements (FSAs) with power plants that have entered into long-term Power Purchase Agreements (PPAs) with power distribution companies and have already commissioned/would get commissioned on or before March 31, 2015. For power plants that have been commissioned upto December 31, 2011, FSAs will be signed before March 31, 2012. The FSAs will be signed for full quantity of coal mentioned in the Letters of Assurance (LoAs) for a period of 20 years with trigger level of 80% for levy of penalty and 90% for levy of incentive. In case of any shortfall in fulfilling its commitment under the FSAs from its own production, CIL will arrange for supply of coal through imports or through arrangement with State/Central Public Sector Units (PSU) who have been allotted coal blocks. In our view, this is likely to speed up project approvals, clearances for CIL over the medium term. However, currently we lack clarity on penalties, incentives and pricing (in case CIL needs to import coal to meet FSA quantities); hence, we await further clarity on this development.

Investment rationale

Production growth to remain muted in the near term

We expect CIL's production to remain muted on account of the imposition of stringent environmental laws by regulatory authorities in the near-term. On the sales volumes front, the company is currently facing shortage of railway rakes, despite some improvement in availability of railway rakes during FY2012. Hence, we expect sales volumes growth of only 2.5% and 4.9% in FY2012 and FY2013, respectively.

Staff costs to keep profit growth muted

CIL has recently settled wage agreement with the unions which is expected to result in ~30% increase in wage cost annually for non-executive workers (80% of CIL's staff). The incremental outgo including incentives and other allowances is expected to be in the range of ₹5,000-₹6,500cr annually. Moreover, considering that CIL has rolled back price hike taken during January, higher staff costs are expected to result in margin contraction during FY2013.

Outlook and valuation

CIL's 9MFY2012 production stood at 291mn tonnes; hence, it is unlikely to meet its FY2012 production target of 440mn tonnes in our view. Further, we believe infrastructural bottlenecks (mainly availability of railway rakes) are likely to result in only 2.5% and 4.9% growth in sales volume during FY2012 and FY2013, respectively. Moreover, higher staff costs are expected to hit its margins during FY2013. Hence, **we maintain Neutral rating on the stock.**

Exhibit 6: Revision of estimates

(₹ cr)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Net sales	63,100	67,324	60,669	65,654	(3.9)	(2.5)
EBITDA	16,911	17,269	17,473	17,562	3.3	1.7
EBITDA margin (%)	26.8	25.7	28.8	26.8	200bp	110bp
PBT	21,472	22,479	22,585	23,299	5.2	3.6
Net income	14,816	15,510	15,583	16,076	5.2	3.6
Net margin (%)	23.5	23.0	25.7	24.5	221bp	145bp

Source: Company, Angel Research

Exhibit 7: EPS – Angel forecast vs. consensus

Year (₹)	Angel forecast	Bloomberg consensus	Variation (%)
FY2012E	24.7	25.2	(2.1)
FY2013E	25.5	26.2	(2.9)

Source: Bloomberg, Angel Research

Exhibit 8: Recommendation summary

Companies	CMP (₹)	Target price (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Sesa Goa	248	-	Neutral	21,545	-	6.9	5.6	1.4	1.1	3.1	2.8	22.3	22.5	21.2	13.3
NMDC	196	227	Buy	77,887	15	10.4	9.3	3.1	2.5	6.0	4.8	33.9	29.8	41.4	36.2
Coal India	339	-	Neutral	214,409	-	13.8	13.3	4.7	3.7	9.0	8.4	39.7	31.4	36.6	28.5
MOIL	269	-	Neutral	4,513	-	11.1	10.9	1.9	1.7	5.5	5.3	17.9	16.1	18.5	16.4

Source: Company, Angel Research

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales	34,608	40,811	44,615	50,234	60,669	65,654
Other operating income	-	-	-	-	-	-
Total operating income	34,608	40,811	44,615	50,234	60,669	65,654
% chg	9.7	17.9	9.3	12.6	20.8	8.2
Total expenditure	28,331	38,174	33,870	36,177	43,196	48,092
Other mfg costs	7,679	8,315	6,053	5,733	8,312	9,290
Personnel	12,635	19,742	16,656	18,211	21,841	24,620
Other	8,017	10,117	11,161	12,233	13,044	14,181
EBITDA	6,277	2,637	10,745	14,057	17,473	17,562
% chg	(9.4)	(58.0)	307.5	30.8	24.3	0.5
(% of Net sales)	18.1	6.5	24.1	28.0	28.8	26.8
Depreciation	1,561	1,691	1,329	1,673	1,941	2,101
EBIT	4,716	946	9,416	12,384	15,531	15,462
% chg	(15.4)	(79.9)	895.2	31.5	25.4	(0.4)
(% of Net sales)	13.6	2.3	21.1	24.7	25.6	23.6
Interest charges	169	179	89	79	45	41
Other income	3,764	5,120	4,901	4,796	7,098	7,878
(% of PBT)	45.3	87.0	34.4	28.0	31.4	33.8
Provision	232	176	209	578	-	-
Recurring PBT	8,311	5,887	14,228	17,101	22,585	23,299
% chg	(4.3)	(29.2)	141.7	20.2	32.1	3.2
Extra. Inc/(Expense)	-	-	(54)	(60.2)	-	-
PBT (reported)	8,079	5,711	13,965	16,463	22,585	23,299
Tax	3,363	3,636	4,342	5,596	7,001	7,223
(% of PBT)	41.6	63.7	31.1	34.0	31.0	31.0
PAT (reported)	4,285	4,063	9,834	10,867	15,583	16,076
% chg	1.9	(5.2)	142.1	10.5	43.4	3.2
(% of Net sales)	12.4	10.0	22.0	21.6	25.7	24.5
Basic EPS (₹)	6.8	6.4	15.6	17.2	24.7	25.5
Fully diluted EPS (₹)	6.8	6.4	15.6	17.2	24.7	25.5
% chg	1.9	(5.2)	142.1	10.5	43.4	3.2

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity share capital	6,316	6,316	6,316	6,316	6,316	6,316
Reserves & surplus	10,884	12,692	19,531	27,001	38,889	50,860
Shareholders' funds	17,201	19,008	25,848	33,317	45,205	57,176
Share warrants	-	-	-	-	-	-
Minority interest	-	2	24	33	33	33
Total loans	1,884	2,148	2,087	1,554	1,434	1,314
Shifting and rehabilitation fund	946	1,224	1,477	1,621	1,621	1,621
Total liabilities	20,030	22,382	29,436	36,525	48,293	60,144
APPLICATION OF FUNDS						
Gross block	31,859	33,255	34,945	36,852	39,552	43,152
Less: Acc. depreciation	21,421	22,246	22,914	23,878	25,820	27,921
Net Block	10,439	11,009	12,031	12,974	13,733	15,232
Capital work-in-progress	1,539	1,822	2,108	2,087	2,087	2,087
Goodwill	-	-	-	-	-	-
Investments	1,718	1,505	1,282	1,064	1,064	1,064
Current assets	36,292	46,936	54,313	64,396	75,556	86,019
Cash	20,961	29,695	39,078	45,862	56,983	66,570
Loans & advances	10,266	11,727	8,665	9,923	9,923	9,923
Other	5,065	5,514	6,570	8,611	8,650	9,527
Current liabilities	30,594	39,942	41,385	44,873	45,023	45,134
Net current assets	5,698	6,994	12,929	19,523	30,533	40,885
Net deferred tax assets	637	1,052	1,086	873	873	873
Misc. Expenditure	-	-	-	3	3	3
Total assets	20,030	22,382	29,436	36,525	48,293	60,144

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	8,190	5,739	13,965	16,463	22,585	23,299
Depreciation	1,380	1,063	679	1,673	1,941	2,101
Change in working capital	2,762	5,606	2,268	(3,822)	111	(765)
Less: Other income	(534)	2,103	406.4	305.7	-	-
Direct taxes paid	2,930	2,791	3,999	5,623	7,001	7,223
Cash flow from operations	8,869	11,719	13,320	8,997	17,636	17,412
(Inc.)/ Dec. in fixed assets	(1,835)	(1,875)	(1,998)	(2,487)	(2,700)	(3,600)
(Inc.)/ Dec. in investments	-	213	223	3,184	-	-
Cash flow from investing	(1,835)	(1,662)	(1,775)	697	(2,700)	(3,600)
Issue of equity	(260)	265	(62)	(410)	-	-
Inc./(Dec.) in loans	-	-	-	-	(120)	(120)
Dividend paid	(1,995)	(1,705)	(2,210)	(2,583)	(3,695)	(4,106)
Others	253	117	109	82	-	-
Cash flow from financing	(2,002)	(1,324)	(2,163)	(2,911)	(3,815)	(4,226)
Inc./(Dec.) in cash	5,032	8,734	9,383	6,784	11,121	9,586
Opening cash bal.	15,929	20,961	29,695	39,078	45,862	56,983
Closing cash bal.	20,961	29,695	39,078	45,862	56,983	66,570

Key ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation ratio (x)						
P/E (on FDEPS)	50.0	52.8	21.8	19.7	13.8	13.3
P/CEPS	36.9	37.4	19.2	17.1	12.2	11.8
P/BV	12.5	11.3	8.3	6.4	4.7	3.7
Dividend yield (%)	0.8	0.8	1.0	1.1	1.3	1.5
EV/Sales	5.6	4.5	3.9	3.4	2.6	2.3
EV/EBITDA	30.8	70.3	16.4	12.0	9.0	8.4
EV/Total assets	9.7	8.3	6.0	4.6	3.3	2.5
Per share data (₹)						
EPS (Basic)	6.8	6.4	15.6	17.2	24.7	25.5
EPS (fully diluted)	6.8	6.4	15.6	17.2	24.7	25.5
Cash EPS	9.2	9.1	17.7	19.9	27.7	28.8
DPS	2.7	2.7	3.5	3.9	4.5	5.0
Book value	27.2	30.1	41.0	52.8	71.6	90.6
Returns (%)						
RoCE (Pre-tax)	24.1	4.5	36.3	37.6	36.6	28.5
RoE (pre-tax)	25.6	22.4	43.8	36.7	39.7	31.4
Turnover ratios (x)						
Asset turnover (gross block)	1.1	1.3	1.3	1.4	1.6	1.6
Inventory (days)	44	35	47	45	45	45
Receivables (days)	17	17	18	20	20	20
Payables (days)	9	8	8	8	8	8
WC cycle (days)	44	40	43	44	42	45
Solvency ratios (x)						
Net debt to equity	(1.2)	(1.5)	(1.5)	(1.4)	(1.3)	(1.2)
Net debt to EBITDA	(3.3)	(11.0)	(3.6)	(3.2)	(3.2)	(3.8)
Interest coverage	27.9	5.3	105.8	156.6	346.6	375.2

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Disclosure of Interest Statement

Coal India

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)