Coal India COAL.NS COAL IN .

COAL

NOMURA

EQUITY RESEARCH

It's about price revisions, wage hike and FSAs

Key overhangs playing out; price review post 1QCY12 provides the silver lining

February 3, 2012

Rating Remains	**Buy**
Target price Reduced from 433	INR 398
Closing price February 3, 2012	INR 327
Potential upside	+21.7%

Action: Maintain BUY as key policy measures / overhangs play out

As CIL wades through a phase wherein key policy developments relating to the coal / power sectors are in the offing, the actual impact of recently concluded wage revisions and revenue-neutrality of the GCV-based pricing structure get clarified, we maintain that its structural growth prospects will remain intact; we reiterate our BUY rating on the stock.

Modalities of new FSAs, upcoming price revision are critical events

In our view, the scheduled review of notified coal prices in 2QCY12 will make-up any dent in 4QFY12 earnings from the current GCV-based pricing and 'excess' outgo on account of wage revision. New FSAs at 80% ACQ arguably pose an earnings risk, but modalities are yet to be finalized; channel checks suggest discussions do not preclude CIL's profitability.

Earnings / Valuations: FY13/14 EPS lowered by 12%, TP cut to Rs398

Our revised earnings forecast for CIL factor in its 1HFY12 financials and operating metrics, Rs65bn stated ball-park impact of wage revision (which appears high, in our view) and prospects of e-auction sales stagnating at 48-50mt in the medium term in the wake of CIL signing new FSAs. Our SOTP-based 12-month TP for the stock is cut to Rs398/share.

Catalysts: Besides CIL managing a nominal price hike in FY13…

[1] Fast-tracking project clearances for new / expansion projects to buoy production growth post FY13, [2] coal blocks auctions to enable price discovery of its 4.53bn coal resources, [3] efficient deployment of its cash chest for payout, expansion and overseas coal assets/equity acquisition.

31 Mar	FY11		FY12F		FY13F		FY14F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	526,162	621,967	607,930	678,143	672,293	742,469	726,203
Reported net profit (mn)	108,674	128,333	140,716	143,679	126,711	169,957	149,596
Normalised net profit (mn)	112,427	128,333	140,419	143,679	126,711	169,957	149,596
Normalised EPS	17.80	20.32	22.23	22.75	20.06	26.91	23.68
Norm. EPS growth (%)	14.4	17.4	24.9	12.0	-9.8	18.3	18.1
Norm. P/E (x)	20.7	N/A	16.6	N/A	18.4	N/A	15.5
EV/EBITDA (x)	14.0	11.3	11.0	9.6	9.3	7.8	8.1
Price/book (x)	7.0	N/A	5.9	N/A	5.0	N/A	4.3
Dividend yield (%)	1.1	N/A	2.7	N/A	1.9	N/A	2.2
ROE (%)	36.7	34.1	38.8	30.8	29.7	29.6	29.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

A yawning coal supply deficit in India, ample headroom for price escalation and cost leadership make Coal India a compelling structural growth story.

Nomura vs consensus

Our FY13/14F EPS forecasts are 23%/19% below consensus as we capture the impact of the potential 26% net profit sharing diktat in our earnings forecasts.

Research analysts

India Power & Utilities

Anirudh Gangahar - NFASL
anirudh.gangahar@nomura.com
+91 22 4037 4516

Ivan Lee, CFA - NIHK
ivan.lee@nomura.com
+852 2252 6213

Ankit Kumar - NSFSPL
ankit.kumar@nomura.com
+91 22 4037 4008

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

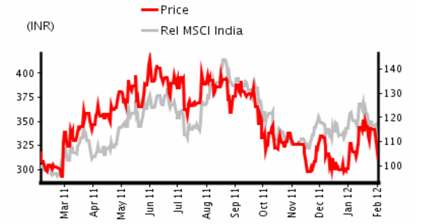
Key data on Coal India

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**466,843**	**526,162**	**607,930**	**672,293**	**726,203**
Cost of goods sold	-117,033	-126,541	-127,353	-145,643	-157,627
Gross profit	**349,810**	**399,621**	**480,576**	**526,650**	**568,575**
SG&A	-91,422	-99,449	-101,279	-103,902	-111,496
Employee share expense	-164,370	-182,110	-239,927	-268,463	-282,371
Operating profit	**94,018**	**118,062**	**139,371**	**154,285**	**174,709**
EBITDA	**107,313**	**134,791**	**158,833**	**173,953**	**195,676**
Depreciation	-13,295	-16,729	-19,462	-19,668	-20,967
Amortisation					
EBIT	94,018	118,062	139,371	154,285	174,709
Net interest expense	-1,617	-791	-532	-487	-424
Associates & JCEs					
Other income	52,466	47,963	68,514	35,164	46,975
Earnings before tax	**144,867**	**165,234**	**207,352**	**188,963**	**221,260**
Income tax	-46,565	-52,807	-66,933	-62,252	-71,664
Net profit after tax	**98,302**	**112,427**	**140,419**	**126,711**	**149,596**
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	**98,302**	**112,427**	**140,419**	**126,711**	**149,596**
Extraordinary items	-2,078	-3,753	297	0	0
Reported NPAT	**96,224**	**108,674**	**140,716**	**126,711**	**149,596**
Dividends	-22,100	-24,634	-63,164	-44,215	-50,531
Transfer to reserves	**74,124**	**84,040**	**77,553**	**82,496**	**99,065**
Valuation and ratio analysis					
FD normalised P/E (x)	23.7	20.7	16.6	18.4	15.5
FD normalised P/E at price target (x)	27.8	24.3	19.5	21.6	18.3
Reported P/E (x)	24.2	21.4	16.5	18.4	15.5
Dividend yield (%)	1.0	1.1	2.7	1.9	2.2
Price/cashflow (x)	15.9	18.2	9.3	10.6	16.3
Price/book (x)	9.0	7.0	5.9	5.0	4.3
EV/EBITDA (x)	18.2	14.0	11.0	9.3	8.1
EV/EBIT (x)	20.8	15.9	12.5	10.5	9.1
Gross margin (%)	74.9	76.0	79.1	78.3	78.3
EBITDA margin (%)	23.0	25.6	26.1	25.9	26.9
EBIT margin (%)	20.1	22.4	22.9	22.9	24.1
Net margin (%)	20.6	20.7	23.1	18.8	20.6
Effective tax rate (%)	32.1	32.0	32.3	32.9	32.4
Dividend payout (%)	23.0	22.7	44.9	34.9	33.8
Capex to sales (%)	5.7	4.7	6.6	6.3	6.2
Capex to depreciation (x)	2.0	1.5	2.1	2.2	2.2
ROE (%)	42.9	36.7	38.8	29.7	29.8
ROA (pretax %)	30.1	36.1	38.3	38.5	39.5
Growth (%)					
Revenue	14.4	12.7	15.5	10.6	8.0
EBITDA	136.8	25.6	17.8	9.5	12.5
EBIT	230.8	25.6	18.0	10.7	13.2
Normalised EPS	141.9	14.4	24.9	-9.8	18.1
Normalised FDEPS	141.9	14.4	24.9	-9.8	18.1
Per share					
Reported EPS (INR)	15.23	17.21	22.28	20.06	23.68
Norm EPS (INR)	15.56	17.80	22.23	20.06	23.68
Fully diluted norm EPS (INR)	15.56	17.80	22.23	20.06	23.68
Book value per share (INR)	40.92	52.74	62.02	72.98	85.86
DPS (INR)	3.50	3.90	10.00	7.00	8.00

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	-7.1	4.0	
Absolute (USD)	-6.4	4.0	
Relative to index	-8.1	10.4	
Market cap (USDmn)	52,220.3		
Estimated free float (%)	10.0		
52-week range (INR)	422.35/245		
3-mth avg daily turnover (USDmn)	38.65		
Major shareholders (%)			
Government of India	90.0		

Source: Thomson Reuters, Nomura research

Notes

Potential imposition of 26% mining tax lowers FY13F net profit;
'Other income' is net of the forecast outgo on mining tax

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	107,313	134,791	158,833	173,953	195,676
Change in working capital	34,479	1,898	97,907	72,604	-27,960
Other operating cashflow	4,143	-8,866	-6,140	-27,574	-25,113
Cashflow from operations	**145,935**	**127,823**	**250,599**	**218,983**	**142,603**
Capital expenditure	-26,601	-24,749	-40,066	-42,591	-45,117
Free cashflow	**119,334**	**103,074**	**210,533**	**176,392**	**97,486**
Reduction in investments	2,228	2,187	2,185	2,185	2,185
Net acquisitions					
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	2,427	2,365	-4,108	3,732	4,105
Adjustments	109	-925	7,465	0	0
Cashflow after investing acts	**124,098**	**106,700**	**216,075**	**182,308**	**103,775**
Cash dividends	-29,871	-33,611	-82,113	-57,479	-68,217
Equity issue	0	0	0	0	0
Debt issue	-616	-5,333	-678	-1,889	-1,719
Convertible debt issue					
Others	217	90	474	0	0
Cashflow from financial acts	**-30,271**	**-38,854**	**-82,317**	**-59,368**	**-69,936**
Net cashflow	**93,827**	**67,845**	**133,758**	**122,940**	**33,840**
Beginning cash	296,950	390,778	458,623	592,381	715,321
Ending cash	390,778	458,623	592,381	715,321	749,161
Ending net debt	-369,909	-443,087	-577,523	-702,353	-737,911

Source: Company data, Nomura estimates

Notes

Strong operating cashflows and low capex intensity should continue to result in robust free cashflows

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	390,778	458,623	592,381	715,321	749,161
Marketable securities	0	0	0	0	0
Accounts receivable	21,686	30,256	27,989	31,596	34,514
Inventories	44,015	55,856	57,113	53,913	54,883
Other current assets	86,655	99,225	116,458	134,022	152,505
Total current assets	**543,134**	**643,960**	**793,941**	**934,852**	**991,063**
LT investments	12,823	10,637	8,452	6,268	4,083
Fixed assets	142,589	150,610	171,213	194,136	218,286
Goodwill	0	0	0	0	0
Other intangible assets					
Other LT assets	0	0	0	0	0
Total assets	**698,546**	**805,207**	**973,607**	**1,135,256**	**1,213,433**
Short-term debt					
Accounts payable	7,725	8,352	12,550	15,194	18,209
Other current liabilities	406,121	440,373	550,305	638,235	629,632
Total current liabilities	**413,846**	**448,725**	**562,855**	**653,429**	**647,840**
Long-term debt	20,869	15,536	14,858	12,969	11,250
Convertible debt					
Other LT liabilities	5,117	7,482	3,374	7,106	11,211
Total liabilities	**439,831**	**471,743**	**581,086**	**673,504**	**670,301**
Minority interest	236	326	800	800	800
Preferred stock	0	0	0	0	0
Common stock	63,164	63,164	63,164	63,164	63,164
Retained earnings	195,315	269,975	328,557	397,789	479,168
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**258,479**	**333,138**	**391,721**	**460,952**	**542,332**
Total equity & liabilities	**698,546**	**805,207**	**973,607**	**1,135,256**	**1,213,433**
Liquidity (x)					
Current ratio	1.31	1.44	1.41	1.43	1.53
Interest cover	58.1	149.3	262.0	316.8	412.2
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	15.7	18.0	17.5	16.2	16.6
Days inventory	125.8	144.0	162.3	139.1	126.0
Days payable	25.6	23.2	30.0	34.8	38.7
Cash cycle	116.0	138.9	149.8	120.5	103.9

Source: Company data, Nomura estimates

Notes

Burgeoning cash chest enables potential to pursue M&As, substantial dividend payout

In this report, unless otherwise stated, comments relating to EBITDA, EPS and RoE of for Coal India (CIL) are after adjusting for provisioning for Overburden Removal (a non-cash accounting adjustment adopted by CIL) in order to enable comparability with peers. Reported/normalized EPS, EBITDA and RoE are specified, when necessary.

Investment Summary – Overhangs playing out; reiterate BUY

As CIL wades through 1QCY12, wherein key policy and regulatory developments relating to the coal / power sectors are in the offing, the overhang of non-executive wage revision pans out (actual impact likely to be clarified by the management post its 3QFY12 earnings release on February 13) and revenue-neutrality of the GCV-based pricing structure gets clarified, we remain convinced on its long-term structural growth story.

In our view, the scheduled review of notified coal prices in 1QFY13 (2QCY12) will accommodate any major dent in 4QFY12 revenue/earnings from the current GCV-based pricing and 'excess' outgo on account of the wage revision; in addition, we maintain that CIL will eventually push through a nominal (~5%) hike in notified coal prices for FY13. Our revised earnings forecasts for FY13/FY14 build-in 4.4% / 3.6% rises in blended realization and 11% raw coal sales (i.e. 48-50mt) routed via e-auction.

We revise our FY12/13/14 EPS forecasts for CIL by +9%/-12%/-12% on the back of [1] changes to key assumptions (Figures 6,7), [2] production & dispatches run rate for FY12, [3] higher-than-expected realization in 1HFY12, [4] Rs65bn stated ball-park impact of non-executive wage revision (translating to a 42% effective wage hike, which appears quite high, in our view), and [5] the unlikely scenario of the 26% profit sharing diktat (mining tax) being implemented in the current financial year. On the back of our earnings downgrade for CIL, our 12-month SOTP-based target price for the stock is cut to Rs398/share (down from Rs433/share), but still implies 22% potential upside from the current stock price. At our target price and normalized FY13 earnings forecast, the stock would trade at 16.1x P/E and 6.7x EV/EBITDA. Relative to regional peers, on CY12F earnings (based on our/consensus estimates for covered/non-covered stocks), CIL currently trades at a 10% premium to the average EV/EBITDA multiple, but at a discount to valuations of regulated return power utilities in India.

We note that as the Government finalizes the modalities of asking CIL to sign fresh FSAs with 'identified' power projects, earnings risk could emanate from meeting the gap in supplying the ACQ by restricting supply under existing FSAs to the ACQ level and diversion of some e-auction coal. However, our channel checks indicate – [1] The discussion and policy measures being deliberated do not preclude the productivity and profitability outlook for CIL, and [2] the upcoming coal price review in 2QCY12 may entail the potential ‘revenue loss’ being made-up by a higher revision in notified coal prices.

Fig. 1: CIL – Nomura vs. consensus

Our FY13F/14F EPS is ~20% below consensus on a/c of mining tax

(Rs mn)	FY12F	FY13F	FY14F
Sales			
Nomura	607,930	672,293	726,203
Consensus (Bloomberg mean)	614,465	675,771	738,904
Nomura vs consensus (%)	(1.1)	(0.5)	(1.7)
Adjusted EBITDA			
Nomura	186,333	203,418	225,868
Consensus (Bloomberg mean)	180,064	208,442	235,448
Nomura vs consensus (%)	3.5	(2.4)	(4.1)
Adjusted Net profit			
Nomura	140,419	126,711	149,596
Consensus (Bloomberg mean)	146,809	163,842	185,040
Nomura vs consensus (%)	(4.4)	(22.7)	(19.2)

Note (1): Our EBITDA forecast is prior to OB adjustment;

Note (2) Our Adj. Net Profit incorporates the impact of mining tax from FY13 onwards

Source: Bloomberg, Nomura estimates

Fig. 2: CIL – Adjusted vs. reported financial metrics

We believe adjusted financial metrics are more representative

(Rs mn)	FY11	FY12F	FY13F	FY14F
EBITDA				
Reported	134,791	158,833	173,953	195,676
Adjusted	160,975	186,333	203,418	225,868
Net Profit				
Reported	108,674	140,716	126,711	149,596
Adjusted	138,612	167,919	156,176	179,788
EPS (Rs)				
Reported	17.2	22.3	20.1	23.7
Adjusted	21.9	26.6	24.7	28.5

Note (1): Adjusted EBITDA = Reported EBITDA + OB Removal Adjustment

Note (2): Adjusted Net Profit = Reported Net Profit - mining tax + OB Removal Adjustment -extraordinary items

Source: Company data, Nomura estimates

Fig. 3: CIL – Price target build-up

We split the terminal value in our DCF calculation by pegging explicit values to CIL's proven reserves & resources (~20% of our TP)

Equity value (Rs/share)	New	Old	% change	Comments
[1] Proven reserves	314	333	-5.5	
PV of Cash Flows	*203*	*243*	*-16.4*	Revised cash flows as of FY13 (roll-forward)
Add: Net cash	*111*	*89*	*24.3*	Net cash as of FY13 (FY12 previously)
[2] Probable reserves	29	35	-16.7	USD0.5/ton (vs 0.6/ton earlier)
[3] Resources	54	65	-16.7	USD0.17/ton (remains at 30% resource-to-reserve conversion)
Price Target [1] +[2] + [3]	**398**	**433**	**-8.0**	

Note: We keep INR/USD rate at 45.0, unchanged from our previous TP calculation
Source: Company data, Nomura estimates

Fig. 4: CIL – Comparison with regional peers on key parameters

CIL ranks favourably on reserves and cost of production; profitability is comparable despite 60-70% lower blended ASP

	CIL	ADRO	BUMI	ITMG	PTBA	Shenhua	China Coal	Yanzhou
Reserves (mn tons)	18,863	891	1,438	311	1,964	9,489	8,700	5,703
Resources (mn tons)	64,218	4,428	10,024	1,640	7,295	17,532	11,740	n/a
Strip ratio	1.7	6.0	11.0	13.0	4	n/a	n/a	n/a
Production (mn tons)	431.3	47.6	66.0	25.0	14.4	224.8	122.5	49.4
Mine life (yrs)	44	19	22	12	136	34	71	n/a
Realization (US$/ton)	26.0	71.0	90.7	97.0	82.6	63.1	67.4	96.7
EBITDA/ton (US$)	8.3	27.8	26.9	31.4	30.7	45.7	17.7	41.4
EBITDA margin (%)	25.6	36.6	29.7	32.6	37.2	45.7	20.9	37.5
Net margin (%)	21.4	13.2	5.8	21.6	28.8	25.1	10.6	27.3
2-yr EPS CAGR (%)	7.7	3.1	53.7	24.7	5.2	22.5	24.5	27.6
2-yr EBITDA CAGR (%)	15.9	(0.8)	34.8	27.1	6.4	18.9	29.4	28.6

Note: (1) Nomura CY11 estimates for ADRO, BUMI, ITMG and PTBA; (2) Mar-11 reported numbers for CIL; (3) Dec-10 reported numbers for Shenhua, China coal and Yanzhou
Source: Company data, Nomura research

Fig. 5: CIL – Revenue and offtake mix

Revenue contribution from e-auction & beneficiated coal to remain at ~25% during FY12F-14F

	FY10	FY11	FY12F	FY13F	FY14F
% breakdown of revenues					
E-auction coal	16.2	17.5	20.3	19.6	20.3
Beneficiated coal	7.0	6.8	5.7	5.4	5.2
High Grade coal (A, B)	14.4	14.2	18.9	18.3	16.8
Excl. High grade coal	62.4	61.4	55.1	56.7	57.8
% of raw coal sold					
E-auction coal	11.6	11.8	12.3	11.0	11.0
High Grade coal (A, B)	6.7	6.9	6.8	6.3	5.9
Excl. High grade coal	81.7	81.2	81.0	82.7	83.1
% of total despatch					
E-auction coal	11.0	11.3	11.7	10.5	10.5
Beneficiated coal	4.8	4.7	4.6	4.3	4.1
High Grade coal (A, B)	6.4	6.6	6.5	6.0	5.7
Excl. High grade coal	77.8	77.4	77.3	79.1	79.6

Note: *From Feb 2011 to December 2011, all high-grade coal will be sold at higher notified prices; earlier, only 5-6 mn tons were sold under MoU, the rest were sold at notified prices; starting January 2012 this coal is sold at revised notified prices
Source: Company data, Nomura estimates

In our view, besides the prospects of a hike in notified prices effective 2QCY12, catalysts for price performance include – [1] MoEF easing its policy stance and expediting environment/forest clearances for CIL's greenfield & expansion projects, which, in turn would buoy production growth from FY14 onwards [2] auctioning of coal blocks by the Government of India would yield incremental reserves for CIL and price discovery of its 45.3bn coal resources (excluding reserves), which we currently value at USD0.2/ton, and [3] efficient deployment of its ~USD12bn cash chest for substantial dividend payout, washeries expansion / progressive mechanization and acquiring overseas coal assets/equity to augment reserves and returns.

Further, we note that recent measures to address the precarious financial health of State Electricity Boards (SEBs), which essentially make retail tariff hikes and fuel-cost pass-thru augur well for CIL's pricing flexibility in the medium-term.

Key risks to our investment thesis include – [1] Regulatory uncertainty around pricing flexibility and restriction on e-auction coal sales, [2] bottlenecks in coal handling and dispatch logistics, including rake availability, [3] delays in land acquisition/possession and law & order issues hampering production growth.

Key changes in our earnings assumptions

Quantum of coal sold via e-auction assumed to remain stagnant at 48-50mtpa
As policy impetus seems to be building up to persuade CIL to provide a greater share of incremental coal to the power sector, we peg the quantum of e-auction coal sales stagnant at 48-50mtpa through our forecast period (essentially we lower our forecast proportion of raw coal sold via e-auction to 11.0% in FY13/FY14 (11.5% previously) and 10% thereafter.

Blended realization raised marginally on the back of 1HFY12 surprise
While retaining the YoY rise in blended realization at ~4% for both FY13 and FY14, we have marginally raised our FY12F blended realization forecast to Rs1401/ton as 1HFY12 realizations have surprised us positively. Notably, even though 2QFY12 blended realization was Rs1403/ton, our FY12F forecast is pegged around the same level, keeping in mind any potential drop in revenue realization in 4QCY12 on account of the new GCV-based pricing notified by CIL for the quarter.

Production / offtake forecast lowered, but expect FY13/FY14 growth to be higher
Accounting for the raw coal production / offtake up to 3QFY12 (December 2011), and expected uptick in production and rake availability in 4QFY12, we peg CIL's FY12F production and offtake at 431mt and 435mt respectively. Going forward, as the Government impetus to augment coal production in the country rises and MoEF expedites clearances to CIL's expansion / greenfield projects, we marginally raise our production growth forecast for CIL in FY13 and FY14 to 5.0% and 5.5% respectively.

Employee cost – Rs6.5bn ball-park impact of wage revision factored in
In addition, we also factor in the ex-gratia festive bonus, as against our previously forecast 30% hike in non-executive wages (implying an outgo of Rs40bn), we now factor in the Rs65bn ball-park impact indicated by CIL in its press release as the annual impact of the recently concluded non-executive wage pact. We believe that the implied 42% non-executive wage revision appears quite high, and expect the actual impact to be lower - clarity on the same from the management will potentially be available post their 3QFY12 earnings release on February 13.

Fig. 6: CIL – Change in price realization
We raise our blended ASP forecast by 1-2% for FY12 and FY13

(Rs/ton)	FY12F	FY13F	FY14F
E-auction coal			
New	2,435	2,724	2,915
Old	2,090	2,260	2,486
% change	16.5	20.5	17.3
Beneficiated coal			
New	2,250	2,356	2,417
Old	2,329	2,363	2,522
% change	(3.4)	(0.3)	(4.2)
Coal sold at notified prices			
New	998	1,048	1,100
Old	1,045	1,076	1,130
% change	(4.5)	(2.7)	(2.7)
Blended ASP			
New	1,401	1,463	1,516
Old	1,377	1,424	1,501
% change	1.7	2.8	1.0

Source: Nomura estimates

Fig. 7: CIL – Change in despatches
We reduce our total despatch forecast by ~3.5% for FY12 and FY13

(mt)	FY12F	FY13F	FY14F
E-auction coal			
New	50.7	48.4	50.5
Old	49.7	52.5	54.2
% change	2.2	(7.9)	(6.8)
Beneficiated coal			
New	15.5	15.5	15.5
Old	15.5	15.5	18.6
% change	-	-	(16.9)
Coal sold at notified prices			
New	335	364	382
Old	354	376	390
% change	(5.3)	(3.4)	(2.1)
Total despatch			
New	434	459	479
Old	452	476	495
% change	(3.9)	(3.5)	(3.2)

Source: Nomura estimates

Fig. 8: CIL – Change in key financials

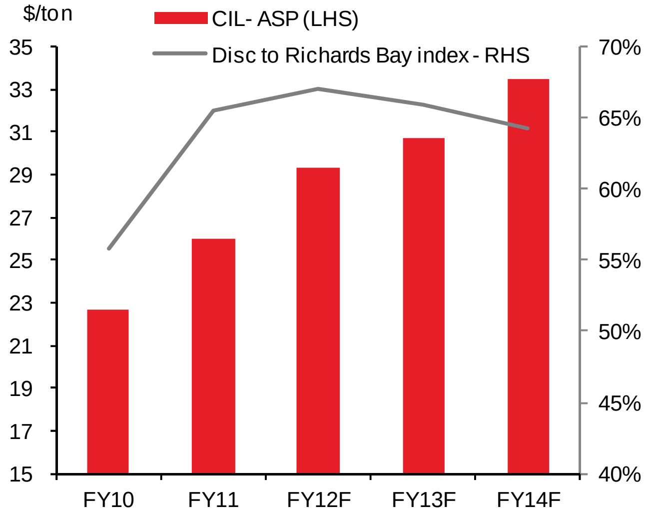
We lower our FY13/14 EPS forecasts by 4%/5%

(Rs mn)	FY12F	FY13F	FY14F
Revenue			
New	607,930	667,088	724,158
Old	621,967	678,143	742,469
% change	(2.3)	(1.6)	(2.5)
Adjusted EBITDA			
New	186,333	198,363	223,881
Old	183,792	196,701	225,045
% change	1.4	0.8	(0.5)
Adjusted Net Profit			
New	140,428	123,070	148,613
Old	128,333	143,679	169,957
% change	9.4	(14.3)	(12.6)

Note: We now exclude the impact of mining tax (26% of previous year's profit share) from 'Adjusted EBITDA' to facilitate better comparability and representation of CIL's operating performance; the 'Old' adjusted EBITDA is recalibrated accordingly.
Source: Nomura estimates

Fig. 9: CIL –Blended ASP at steep discount to global prices

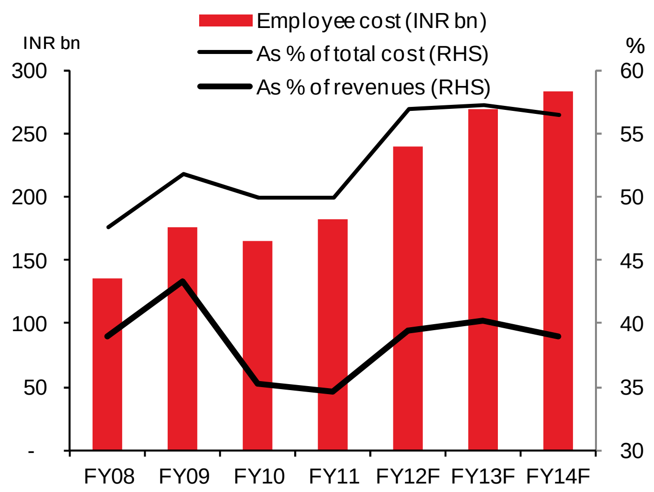
Adjusted for calorific value, CIL's ASP is 65-70% below global coal Indices



Note: Calculations are based on FOB prices (Richards Bay), ex-royalty prices for CIL
Source: Company data, Bloomberg, Nomura estimates

Fig. 10: CIL – Employee cost account for 50% of total opex

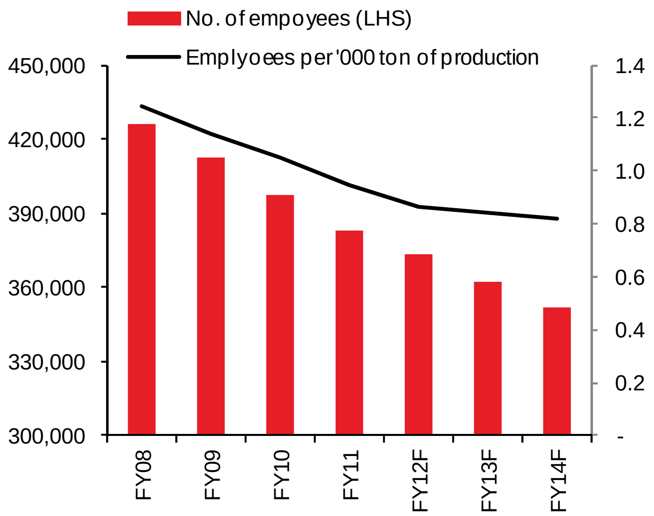
We estimate non-executive wage bill to comprise ~85% of the staff cost



Source: Company data, Nomura estimates

Fig. 11: CIL – Employee productivity

We expect a natural attrition of 10-12k employees up to FY14F



Source: Company data, Nomura estimates

New washeries unlikely to come up before FY2015

Although the switch to 300kcal bands of GCV-based pricing does provide greater incentive to CIL to increasingly produce higher GCV coal and accordingly speed-up augmentation of coal washing capacity, we expect the first capacity to be commissioned only in FY2015 (vs. FY2014 previously).

Staff costs – Rs65bn hit from NCWA-IX appears high

Our revised earnings forecast for CIL captures the Rs65bn stated impact on account of the recently concluded National Coal Wage Agreement (NCWA) - IX i.e. non-executive wage revision. In our view, the implied 42% hike in non-executive wage bill appears very high, relative to CIL's previous commentary of a 25% wage hike amounting to a Rs40bn outgo and final negotiations beyond a 25% gross wage rise essentially entailing an incremental special allowance of 4% of revised basic and HRA of 2% of the Basic pay for non-urban residential accommodation. We expect greater clarity on the actual impact of the wage hike post CIL's 3QFY12 earnings release.

Overall, our FY12/FY13 employee cost forecast for CIL is higher by 11%/14% – besides the Rs65bn hit (3/4th accounted in FY12, remainder in FY13), our revised forecast also accounts for reclassification of some expenses from erstwhile 'social overheads' to employee cost, ex-gratia bonus nominal hike in wage bill for executives.

Sign-up of new FSAs at 80% ACQ – what's the earnings risk?

CoS has suggested CIL signs FSAs at 80% ACQ…
As the policy framework relating to the power sector is reviewed by the Committee of Secretary (CoS), formed under the aegis of the Prime Minister's Office to address bottlenecks (relating to policy / funding / fuel shortage, payment security) being faced by the power sector, the CoS has suggested that CIL be asked to sign FSAs (at 80% ACQ i.e. 80% minimum guaranteed supply of committed quantity) with domestic coal-based power projects commissioned between April 2009 up to December 2011 and currently securing coal from CIL via LoAs (Letter of Assurances). Putting this in perspective, CIL has only signed a handful of FSAs for projects commissioned after March 31, 2009, as it has been willing to commit a 50% ACQ level in any new FSA.

…MoC / MoP finalizing coal supply under FSAs for 'identified' XIIth Plan Projects…
Further, as mentioned in our note titled *"Meetings with policymakers in Delhi – takeaways "dated December 23, 2011,* for the Five-Year Plan (beginning April 2012), the Ministry of Power (MoP) and Ministry of Coal (MoC) are working in tandem to freeze 1) feasible incremental coal-fired generation capacity; 2) incremental supply of domestic coal; and 3) potential quantum of coal which can be made available under FSAs for new projects.

…modalities likely to be worked out in a fortnight
Our channel checks and interaction with policymakers suggest that modalities coal supply under new FSAs will likely be worked out over the next fortnight. We note that the Standing Linkage Committee (Long-Term) for Power is scheduled to meet on February 9 to review existing LoAs and deliberate on the need to freeze the list of power projects which would be provided coal by CIL in the XIIth Plan.

In our view critical issues which need to be finalized include [1] drawing up the list of projects eligible to secure FSA coal, [2] normative quantum of coal for which the FSA would be signed, [3] diversion of e-auction coal and/or restricting coal supplies under CIL's existing FSAs to the ACQ level (typically 90%) to enable coal supply under new FSAs, [4] offtake arrangements, particularly rake availability to dispatch the additional FSA coal, and [5] revision in notified coal price to make-up any earnings loss by CIL.

Does CIL have enough coal to supply at 80% ACQ?
Firstly, we note that CIL had indicated previously (in their August 2011 analyst meet) that assuming a dispatch of 477mt in FY2012, 347mt would be the offtake for the power sector of which 305mt would be the quantum of coal to be supplied under the FSAs. As we expect FY12 dispatches to be restricted to 434mt, our prima facie assessment is that coal supply to the power sector would be ~315mt, of which 290mt would be supplied under FSAs; accordingly ~25mt (currently being supplied under LoAs) is available to be supplied under FSA.

Secondly, our calculations suggest that an aggregate capacity of ~19GW, built to be fired primarily on domestic coal, has been commissioned during April 2009 up to December 2011. Assuming an average requirement of 4mtpa of domestic coal requirement for firing 1GW at 80% PLF, the required FSA supply would be ~76mtpa; in turn, at 80% ACQ, the minimum supply required from CIL would be ~60mtpa.

Combining the above, the shortfall for supplying the incremental ~19GW projects is 35mtpa; if the normative PLF for the FSA quantity is pegged higher, the gap would widen. This gap could be filled up by [1] restricting supply under existing FSAs to the ACQ level (typically 90%), and [2] diversion of some proportion of e-auction coal for supply under new FSAs. However, we also note that the above measures would unlikely aggrieve a large portion of existing coal consumers, and also restrict new power projects to 'top up' coal supplies under LoAs by procuring the same via e-auction. In addition, offtake logistics via railways for incremental coal could also be a 'natural' bottleneck.

So, what is the earnings risk for CIL from this exercise?

The new FSAs would make CIL contractually liable to at least supply the ACQ (proposed to be set at 80%) coal quantity, lest it incurs penalties. As mentioned above, the gap in meeting the ACQ requirement under new FSAs would potentially be a combination of restricting supply under existing FSAs to the ACQ level (which would potentially imply CIL loses out on incentives) and diversion of some proportion of e-auction coal (which is a direct hit to the bottom line). As regards supply to the 'identified' XIIth Plan capacity, it is likely that no *incremental coal* produced/dispatched by CIL in the XIIth Plan may be earmarked for e-auction.

However, it is important to note that the ramifications on notified coal prices from this proposed policy measure is yet to be decided. Our discussion with the MoC and IPP lobbyists indicate – [1] The discussion and policy measures being deliberated by the CoS do not preclude the productivity and profitability outlook for CIL, and [2] should there be a reduction mandated in e-auction sales, the upcoming coal price revision in 2QCY12 may entail the resulting 'revenue loss' being made-up by a higher revision in notified coal prices i.e. the impact would be distributed across all consumers.

To conclude, this is a 'developing situation' – one which would become clear potentially in a fortnight. As mentioned previously, our revised earnings forecast only assumes a nominal hike in blended realization for FY13/14; we maintain the quantum of coal sold via e-auction stagnant at 48-50mtpa.

Earnings highly sensitive to ASP, offtake, e-auction volumes

CIL's earnings are more sensitive to blended ASP, offtake growth and proportion of e-auction offtake as compared to volume growth, employee cost and e-auction realizations (Figure 12). A 1% increase in blended ASP can increase EPS by ~2.7%, whereas a 1% higher offtake would increase CIL's forecast EPS by ~2.3%.

Fig. 12: CIL – Sensitivity of key variables on earnings

Earnings are more sensitive to blended ASP, offtake growth and proportion of e-auction offtake

Impact on EPS of 1% rise in	FY12F	FY13F	FY14F
Volumes	1.3%	1.7%	1.7%
Offtake	2.2%	2.3%	2.4%
Blended ASP	2.6%	2.7%	2.7%
E-auction coal as % of raw coal sold	2.5%	3.0%	3.1%
Employee cost	-0.9%	-1.1%	-1.0%
Realization of e-auction coal	0.5%	0.5%	0.5%
Realization of washed coal	0.1%	0.1%	0.1%

Source: Nomura estimate.

TP based on DCF of proven reserves + value of resources

We arrive at our Rs398/share 12-month target price for CIL using a sum-of-the-parts of 1) FCFF-based methodology to value the cashflows from its 10.6bn tons of proven reserves at Rs315/share, and 2) MCap/ton based value of CIL's probable reserves (8.3bn tons) and remaining resources (45.5bn tons as per the JORC Code) at Rs83/share.

Using a 12.5% WACC (12.8% cost of equity, 5% cost of debt), we arrive at a one-year forward FCFF-based value of INR333 for CIL's proven reserves. Our explicit earnings forecast period for CIL extends up to FY2028 when we expect CIL to exhaust its proven coal reserves; we expect EBITDA margin to decline to ~20% by the end of this period.

We value CIL's probable reserves at USD0.5/ton, implying about one-fifth of the PV of cashflows from CIL's proven reserves in our DCF calculation (USD2.7/ton). We believe this value is reasonable considering – (1) our Indonesia Coal research team assigns US$0.8/ton to value the resources (as against reserves) of KPC and Arutmin mines in calculating the SOTP-based value of Bumi Resources; adjusted for 30% lower GCV (which fetches ~ 40% lower price realization), the comparable value is US$0.5/ton, and (2) CIL currently trades at EV/Resource of USD0.5/ton, implying a 60-70% discount to the average CY2011 EV/Resource multiple at which Indonesian / Australian coal mining stocks currently trade.

Finally, assuming a 30% resource-to-reserve conversion ratio, we assign a value of US$0.2/ton to the balance geological coal resources of CIL. Once again, we note that as per the ISP guidelines applied by CIL to assess its coal reserves and resources, CIL's extractable reserves are 33% of its total geological resources and 70% of its geological resources where mining studies have been completed – suggesting that the value assigned to the resources is reasonable.

Why do we value CIL's probable coal reserves and coal resources separately? In our view, the structural demand for coal in India, together with relatively inexpensive cost of extraction, favourable geological characteristics (seam thickness, gradient etc.) and discounted price realizations (relative to its global peers), make a strong case of valuing CIL's probable coal reserves and coal resources. We believe this value would get manifested when coal block auctions kick-off in India.

Fig. 13: CIL – Price target calculation

Explicit cash flows from proven reserves contributes 79% of our price target

CF from proven reserves (INR m)	FY11 Mar-11	FY12F Mar-12	FY13F Mar-13	FY14F Mar-14	FY15F Mar-15	FY16F Mar-16	FY17F Mar-17	FY22F Mar-22	FY28F Mar-28
EBITDA (Adj for provisions/Write-offs)	166,755	186,333	166,832	192,924	210,401	252,545	284,176	308,158	286,701
% growth		11.7%	-10.5%	15.6%	9.1%	20.0%	12.5%	-3.3%	-7.5%
Other operating income	12,182	14,103	14,933	15,571	16,348	17,118	17,882	20,596	21,245
Less: Adjusted taxes	(51,840)	(51,578)	(46,198)	(53,445)	(58,171)	(69,542)	(78,149)	(83,967)	(78,639)
NOPLAT	**127,097**	**148,859**	**135,567**	**155,049**	**168,578**	**200,121**	**223,909**	**244,787**	**229,307**
% growth		17.1%	-8.9%	14.4%	8.7%	18.7%	11.9%	-2.9%	-6.8%
Change in WC	(24,287)	70,407	43,139	(58,153)	4,519	3,834	83,328	110,725	135,683
Capex (INR mn)	(24,749)	(40,000)	(42,500)	(45,000)	(45,000)	(42,750)	(40,613)	(33,950)	(33,950)
FCF - Explicit period	**78,061**	**179,265**	**136,206**	**51,896**	**128,097**	**161,205**	**266,625**	**321,563**	**331,041**
Discount factor (WACC)		1.13	1.00	0.89	0.79	0.70	0.62	0.35	0.17
PV of FCFFs		**201,673**	**136,206**	**46,130**	**101,213**	**113,183**	**166,399**	**111,330**	**56,498**
Cumulative PV		1,283,907							
Net debt		(702,353)							
Value of proven reserves		1,986,259							
Value of probable reserves & resources		526,191							
Equity value		**2,512,450**							
Shares outstanding (mn shares)		6,316							
Share price (INR)		**398**							

Key assumptions	
Risk free rate	8.25%
Market risk premium	5.0%
Beta	0.90
WACC	12.5%

Source: Company data, Nomura estimates

Fig. 14: CIL – TP sensitivity to offtake and ASP growth

Expectedly, target price is more sensitive to ASP than offtake growth

Change in blended ASP (pp)	Change in offtake growth (pp): -4.0%	-2.0%	0.0%	2.0%	4.0%
-4.0%	368	368	368	368	368
-2.0%	382	382	382	382	382
0.0%	398	398	**398**	398	398
2.0%	413	413	413	413	413
4.0%	428	428	428	428	428

Note: Highlighted portion represents our target price

Source: Nomura estimate

Fig. 15: CIL – TP sensitivity to value of resources, reserves

Sensitivity to value of resources is higher

Value of resources ($/ton)	Value of probable reserves ($/ton): 0.30	0.40	0.50	0.60	0.70
0.11	367	372	378	384	390
0.14	376	382	388	394	400
0.17	386	392	**398**	404	410
0.20	396	402	407	413	419
0.23	405	411	417	423	429

Note: Highlighted portion represents our target price

Source: Nomura estimate

Fig. 16: CIL – Regional valuation comparison

CIL trades at a 10% premium to its regional peers on CY12F EV/EBITDA

Company	Ticker	Rating	Fin Crncy	Fiscal Y/E	M. Cap (US$m)	Price (Local)	P/E CY11F	P/E CY12F	P/E CY13F	EV/EBITDA CY11F	EV/EBITDA CY12F	EV/EBITDA CY13F
Coal India*												
Coal India - Adjusted	COAL IN		INR	Mar	42,461	327.4	12.3	13.2	11.5	8.0	6.7	5.9
Coal India - Reported	COAL IN		INR	Mar	42,461	327.4	14.7	16.3	13.8	9.4	7.8	6.8
At Target price												
Coal India - Adjusted							15.0	16.1	14.0	10.4	8.9	7.9
Coal India - Reported							17.9	19.8	16.8	12.2	10.4	9.1
HK												
Shenhua Energy-H	1088 HK	Buy	CNY	Dec	86,682	34.7	12.3	10.6	9.2	6.5	5.5	4.6
Chinacoal Energy-H	1898 HK	Neutral	CNY	Dec	19,250	10.1	10.4	8.6	7.0	6.6	5.4	4.2
Yanzhou-H	1171 HK	Buy	CNY	Dec	16,030	18.6	8.2	8.1	7.7	7.5	7.0	6.1
Average							**10.3**	**9.1**	**8.0**	**6.9**	**6.0**	**4.9**
China												
Datong Coal	601001 CH	NR	CNY	Dec	3,516	13.2	16.7	14.6	13.0	n/a	n/a	n/a
Shanxi Xishan Coal & Electricity	000983 CH	NR	CNY	Dec	7,994	16.0	15.5	13.0	12.4	n/a	n/a	n/a
Pingdingshan Tianan Coal	601666 CH	NR	CNY	Dec	4,454	11.9	12.7	10.8	9.6	n/a	n/a	n/a
Shanxi Guoyang	600348 CH	NR	CNY	Dec	7,112	18.6	14.7	13.1	11.5	n/a	n/a	n/a
Shanghai Energy	600642 CH	NR	CNY	Dec	3,384	4.5	15.0	12.3	10.7	n/a	n/a	n/a
Hengyang Coal	600971 CH	NR	CNY	Dec	2,684	44.9	35.4	31.0	34.0	n/a	n/a	n/a
Lu'an Environmental Energy	601699 CH	NR	CNY	Dec	8,784	24.1	14.0	12.3	10.1	n/a	n/a	n/a
SDIC Xinji	601918 CH	NR	CNY	Dec	3,414	11.6	13.4	10.7	10.2	n/a	n/a	n/a
Average							**17.2**	**14.7**	**14.0**	**n/a**	**n/a**	**n/a**
S.E.Asia												
Banpu	BANPU TB	NR	THB	Dec	5,387	612	10.1	10.1	9.3	7.3	5.8	5.0
Bumi	BUMI IJ	Buy	USD	Dec	6,013	2,600	17.4	15.3	9.3	5.2	4.4	3.1
ITMG	ITMG IJ	Buy	USD	Dec	4,931	39,200	9.5	11.8	8.8	5.6	7.3	5.2
Bukit Asam	PTBA IJ	Buy	IDR	Dec	5,258	20,500	15.3	14.0	12.4	10.5	9.3	8.0
Indika Energy	INDY IJ	Buy	IDR	Dec	1,421	2,450	11.7	8.1	6.1	29.2	19.1	15.3
Adaro	ADRO IJ	Buy	IDR	Dec	6,837	1,920	14.3	13.1	10.9	6.0	6.2	5.0
Average							**13.0**	**12.1**	**9.5**	**10.6**	**8.7**	**6.9**
Australia												
Whitehaven Coal	WHC AU	NR	AUD	Jun	2,540	5.5	19.6	11.9	9.5	n/a	10.3	6.2
New Hope Corp	NHC AU	NR	AUD	Jul	4,474	5.8	20.4	19.6	15.4	15.2	11.2	11.3
Gloucester Coal	GCL AU	NR	AUD	Jun	1,568	8.3	38.2	20.1	10.3	n/a	n/a	9.3
Stanmore Coal	SMR AU	NR	AUD	Jun	130	0.9	n/a	n/a	n/a	n/a	n/a	n/a
Average							**26.1**	**17.2**	**11.7**	**15.2**	**10.8**	**8.9**
North America												
Arch Coal	ACI US	NR	USD	Dec	3,278	15.5	13.2	7.2	6.4	n/a	5.0	4.4
Consol Energy Inc.	CNX US	NR	USD	Dec	8,587	37.9	13.6	12.1	10.5	n/a	n/a	5.6
Peabody Energy Corp.	BTU US	NR	USD	Dec	10,125	37.4	10.7	8.1	8.2	6.0	n/a	5.3
Walter Energy Inc	WLT US	NR	USD	Dec	4,632	74.2	10.8	11.6	9.3	n/a	n/a	5.5
Alpha Natural Resources	ANR US	NR	USD	Dec	4,757	21.6	10.3	19.6	11.4	n/a	4.3	3.5
Average							**11.7**	**11.7**	**9.2**	**6.0**	**4.6**	**4.9**

Note: [1] Priced as on 3rd Feb, 2012;[2] * CY11 represents FY12 (year ending March) and similarly CY12=FY13 and CY13=FY14; [3]CIL numbers are adjusted for provisioning of OB removal

Source: Bloomberg, Bloomberg estimates for Not rated stocks, Nomura estimates

Fig. 17: CIL – Regional valuation comparison (contd.)

CIL trades at a significant discount to peers on resources/reserves based valuations

	ROE (%)			Div yield (%)			EV/R1	EV/R2	Net Debt/Equity		
Company	**CY11F**	**CY12F**	**CY13F**	**CY11F**	**CY12F**	**CY13F**	**(US$/ton)**	**(US$/ton)**	**CY11F**	**CY12F**	**CY13F**
Coal India*											
Coal India - Adjusted	32.1	25.4	25.0	3.1	2.1	2.4	0.5	1.8	(0.97)	(1.01)	(0.91)
Coal India - Reported	38.8	29.7	29.8	3.1	2.1	2.4			(1.47)	(1.52)	(1.36)
At Target price											
Coal India - Adjusted	32.1	25.4	25.0				0.7	2.5	(0.97)	(1.01)	(0.91)
Coal India - Reported	38.8	29.7	29.8						(1.47)	(1.52)	(1.36)
HK											
Shenhua Energy-H	21.5	21.8	22.2	3.3	3.8	4.4	4.8	9.0	(0.55)	(0.92)	(1.27)
Chinacoal Energy-H	13.3	14.5	16.0	2.6	3.1	3.8	1.4	1.9	0.32	0.52	0.33
Yanzhou-H	21.0	18.9	16.3	3.6	3.6	3.7	n/a	3.2	1.53	1.17	0.75
Average	**18.6**	**18.4**	**18.2**	**3.1**	**3.5**	**3.9**			**0.43**	**0.26**	**(0.07)**
China											
Datong Coal	14.5	14.7	15.9	1.7	1.9	2.0	n/a	n/a	n/a	n/a	n/a
Shanxi Xishan Coal & Electricity	22.8	23.9	25.8	2.4	2.7	2.9	n/a	n/a	n/a	n/a	n/a
Pingdingshan Tianan Coal	20.3	19.6	19.6	2.5	2.7	3.2	n/a	n/a	n/a	n/a	n/a
Shanxi Guoyang	29.5	26.7	24.5	1.2	1.3	1.5	n/a	n/a	n/a	n/a	n/a
Shanghai Energy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hengyang Coal	17.4	17.7	16.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lu'an Environmental Energy	29.1	27.6	28.3	3.7	4.4	5.4	n/a	n/a	n/a	n/a	n/a
SDIC Xinji	17.1	17.4	n/a	2.4	2.9	n/a	n/a	n/a	n/a	n/a	n/a
Average	**21.5**	**21.1**	**21.8**	**2.3**	**2.7**	**3.0**					
S.E.Asia											
Banpu	25.5	19.4	18.6	3.1	3.2	3.3	1.8	7.7	0.63	0.42	0.24
Bumi	19.7	19.1	25.7	1.0	1.2	1.3	1.0	6.7	1.70	1.21	0.67
ITMG	59.2	39.6	46.9	4.1	7.9	6.3	2.8	14.9	(0.53)	(0.42)	(0.52)
Bukit Asam	42.3	36.8	34.3	2.6	3.3	3.6	0.6	2.4	(0.65)	(0.62)	(0.61)
Indika Energy	18.5	22.6	25.2	1.1	3.4	4.9	1.1	2.4	1.40	1.04	0.64
Adaro	21.4	20.0	20.3	1.4	2.2	1.4	1.5	7.7	0.49	0.45	0.22
Average	**31.1**	**26.2**	**28.5**						**0.51**	**0.35**	**0.11**
Australia											
Whitehaven Coal	12.5	18.2	18.4	2.5	3.7	4.6	1.4	6.8	(0.08)	(0.05)	(0.09)
New Hope Corp	10.2	9.2	9.3	3.2	3.2	3.6	1.9	5.3	(0.61)	(0.63)	(0.49)
Gloucester Coal	3.7	6.4	10.2	0.1	0.6	2.2	1.0	5.4	0.00	0.05	0.11
Stanmore Coal	n/a	(6.3)	n/a	-	-	-	n/a	n/a	(0.32)	(0.31)	(0.92)
Average	**8.8**	**11.3**	**12.6**						**(0.23)**	**(0.21)**	**(0.16)**
North America											
Arch Coal	6.2	11.5	13.3	2.8	2.8	2.8	n/a	1.0	0.97	0.90	0.74
Consol Energy Inc.	14.4	15.1	15.3	1.3	1.3	1.2	n/a	n/a	0.66	0.55	0.37
Peabody Energy Corp.	19.7	19.8	36.6	0.9	0.9	1.0	1.1	1.8	0.58	0.91	0.91
Walter Energy Inc	26.0	17.2	17.5	0.7	0.7	0.7	n/a	n/a	1.08	0.74	0.46
Alpha Natural Resources	3.3	3.4	4.0	-	0.0	-	n/a	2.1	0.24	0.23	0.14
Average	**13.9**	**13.4**	**17.3**						**0.71**	**0.67**	**0.53**

Note: [1] Priced as on 3rd Feb, 2012;[2] * CY11 represents FY12 (year ending March) and similarly CY12=FY13 and CY13=FY14; [3]CIL numbers are adjusted for provisioning of OB removal, [4]R1=Resources and R2=Reserves

Source: Bloomberg, Bloomberg estimates for Not rated stocks, Nomura estimates

Appendix A-1

Analyst Certification

I, Anirudh Gangahar, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

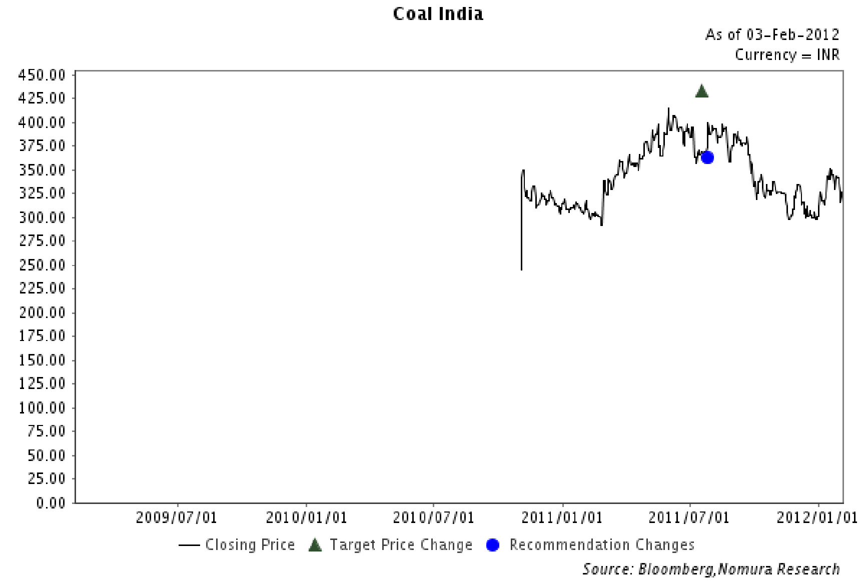
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Coal India	COAL IN	INR 327	03-Feb-2012	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Coal India	Not Rated	18-Jul-2011

Coal India (COAL IN) **INR 327 (03-Feb-2012)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
18-Jul-11	Buy		368.90
18-Jul-11		433.00	368.90

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We arrive at our Rs398/share 12-month target price for CIL using a sum-of-the-parts of 1) FCFF-based methodology to value the cashflows from its 10.6bn tons of proven reserves at Rs315/share, and 2) MCap/ton based value of CIL's probable reserves (8.3bn tons) and remaining resources (45.5bn tons as per the JORC Code) at Rs83/share.

Risks that may impede the achievement of the target price Key risks to our investment thesis include – [1] Regulatory uncertainty around pricing flexibility and restriction on e-auction coal sales, [2] bottlenecks in coal handling and dispatch logistics, including rake availability, [3] delays in land acquisition/possession and law & order issues hampering production growth.

Important Disclosures

Online availability of research and conflict-of-interest disclosures

Nomura research is available on www.nomuranow.com, Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne.
Important disclosures may be read at http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport-eu@nomura.com for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Industry Specialists identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear. *Marketing Analysts* identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura’s Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

Distribution of ratings (US)

The distribution of all ratings published by Nomura US Equity Research is as follows:
35% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 11% of companies with this rating are investment banking clients of the Nomura Group*.
59% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 2% of companies with this rating are investment banking clients of the Nomura Group*.
6% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 0% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 December 2011. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Distribution of ratings (Global)

The distribution of all ratings published by Nomura Global Equity Research is as follows:
47% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 40% of companies with this rating are investment banking clients of the Nomura Group*.
43% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 45% of companies with this rating are investment banking clients of the Nomura Group*.
10% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 21% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 December 2011. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal);**Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more. A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce'** recommendation indicates that potential downside is 5% or more. A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

Securities and/or companies that are labelled as '**Not rated'** or shown as '**No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

This document contains material that has been prepared by the Nomura entity identified at the top or bottom of page 1 herein, if any, and/or, with the sole or joint contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or identified elsewhere in the document. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the 'Nomura Group'), include: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Capital Nomura Securities Public Company Limited ('CNS'), Thailand; Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia ('PTNI'), Indonesia; Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034); Banque Nomura France ('BNF'), regulated by the Autorité des marches financiers and the Autorité de Contrôle Prudentiel; NIplc, Dubai Branch ('NIplc, Dubai'); NIplc, Madrid Branch ('NIplc, Madrid') and NIplc, Italian Branch ('NIplc, Italy').

This material is: (i) for your private information, and we are not soliciting any action based upon it; (ii) not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal; and (iii) based upon information from sources that we consider reliable, but has not been independently verified by Nomura Group.

Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by Nomura group are hereby excluded and Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Nomura Group does not provide tax advice.

Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. Nomura Group companies may also act as market maker or liquidity provider (as defined within Financial Services Authority ('FSA') rules in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. ('MSCI'). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. Nomura Group publishes research product in a number of different ways including the posting of product on Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements.

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

The securities described herein may not have been registered under the US Securities Act of 1933 (the '1933 Act'), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK and European Economic Area as investment research by NIplc, which is authorized and regulated by the FSA and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are 'eligible counterparties' or 'professional clients' as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

This document has not been approved for distribution in the Kingdom of Saudi Arabia ('Saudi Arabia') or to clients other than 'professional clients' in the United Arab Emirates ('UAE') by Nomura Saudi Arabia, NIplc or any other member of Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or to any person located in Saudi Arabia or to clients other than 'professional clients' in the UAE. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are a 'professional client' in the UAE and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of Saudi Arabia or the UAE.

NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF NOMURA GROUP. Further information on any of the securities mentioned herein may be obtained upon request. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

Additional information is available upon request. Disclosure information is available at the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx