ASSET ALLIANCE SECURITIES PVT. LTD.

COAL INDIA LTD – 4QFY'11 Result Update

Will be 'GOLD INDIA' for Long-Term Investors

June 2nd, 2011

CMP (01/06/11): ₹414.7
Eq. Capital (FV ₹10): ₹6,316.36 Crs
Market Cap: ₹261,939 Crs
Shareholding: Promoter-90%, FII-6.12%, Public-1.67%, FIs, MFs & Body Corporates – 2.21%
52-w H/L: ₹422.35/287.45

Coal India Ltd (CIL) declared its consolidated FY11 results on May 25, 2011 which was largely in line with our estimates. The Net sales rose 12.6% to ₹50,234 Crs and the net profit increased by 21.6% to ₹10,867 Crs. The company held the conference call on May 31, 2011 wherein they discussed their strategy for future growth.

KEY TAKEAWAYS – 4Q11 Con-call

→ **CIL Q411 revenues were higher by 18.3% QoQ to ₹15,016 Crs on account of higher off-takes at 114.09 mn tons (vs. 110.52 mn tons in 3Q11) and improved realizations.** The higher realizations in Q4 were driven by:

i. ~11% Price hike undertaken in February 2011 resulting in ~₹650 Crs additional revenue.

ii. Year end incentives (bonus) for meeting the 90% commitment to power utilities in FY11 amounting to ₹670 Crs.

iii. Finalization of higher coking coal price with SAIL with retrospective effect from April'10 resulting in higher realizations of ₹330 Crs.

The realizations increased by 14.6% QoQ to ₹1,316 per ton vs ₹1,148 per ton in 3Q11 and ₹1,135 per ton in 9M11. After adjusting for above items (Excl price hike), the realization stood at ₹1,229 per ton in 4Q11. The price hike undertaken in February is likely to yield additional revenues of ~₹6,200 Crs in FY12E.

For FY11, CIL reported sales volume of 424.5 mn tons vs our expectation of 444 mn tons. The Average sales realization of ₹1,183 per ton was however in line with our estimated ₹1,180 per ton. For FY12E the company has guided for a production volume of 452 mn tons and sales volume of 454 mn tons. We are downward revising our FY12E sales volume to 450 mn tons from earlier 460 mn tons and increasing the average realization by 12.3% (Considering wage cost hike of ~25% and assuming CIL to increase coal prices by ~10%) to ₹1,325 per ton vs. prior est. of ₹1,180 per ton. We are also introducing FY13E numbers.

→ **CIL has targeted a production of 560 mn tons by FY17E implying a growth of 25% from current levels of production (452 mn tons for FY12E).** The company has given very conservative estimates on its production targets but expects its realizations to improve as it is planning to go for complete market determined pricing for all of its output over the next 7 years. The company is also targeting to get all its coal in washed form within next 7years and sell them at globally-linked prices as washed coal yields better realizations than raw coal.

→ **CIL's guidance of 454 mn tons for FY12E is based on the availability of 175 rakes per day.** In the month of April on an average 178 rakes per day were available to CIL and in May ~163 rakes per day were available. The Indian Railways has assured CIL for the availability of 190 rakes per day in the month of June (since Indian Railways is expecting to receive net 14000 additional wagons in FY12E from the wagon suppliers). With the increasing availability of rakes, CIL is targeting to liquidate ~25 mn tons of its coal inventory which will add to the sales off-take of the company apart from the guided 454 mn tons.

→ **CIL has provided ~₹2,600 Crs as the overburden removal cost (OBR).** Under new norms, such provisions will not have to be made at all. The OBR provision in the balance sheet stands at close to ₹14,000 Crs which will be written back to reserves, shoring up the company's net worth.

→ **CIL has sold ~11% of its volume through e-auction route accounting for ~17.5% (₹8,810 Crs) of its total revenues.** The management has guided to continue maintain the share of its e-auction sales to ~11% in volume terms. The realization in the e-auction sales stood at ₹2,070 per ton in 4Q11.

→ **CIL has allocated 347 mn tons to the power sector in FY12E.** In FY11, the company allotted 335 mn tons to power utilities but due to some logical constraints the power sector was able to lift only 304 mn tons. Of the Total 347 mn tons allotted to power sector, 306 mt is already committed for units commissioned till March 31, 2009 under the Fuel Supply Agreement (FSA). Thus, additional availability of coal for newly commissioned units during 2009-12 is 41 mn tons.

Given the logistical bottlenecks to transport coal to the power sector, the power ministry's demand for stopping e-auction of coal to meet the requirements of power sector does not hold substance. The Coal Ministry has thus rejected the power ministry's proposal of stopping e-auction of the dry fuel, saying the electronic route for selling coal needs to be continued for meeting the demands of small users.

The Ministry of Coal meeting with Government is to be held on June 7 to review the coal allocation policy.

→ **The Ministry of Environment and Forests (MoEF) has lifted the moratorium under CEPI (Comprehensive Environmental Pollution index) in 20 out of 43 industrial clusters** w.e.f. March 31, 2011 in view of which moratorium on Talcher-Angul project have been lifted. However; in the remaining 23 industrial clusters, the above moratorium has been extended upto September 30, 2011 which may have a marginal impact on CIL's coal production as 7 of its coalfields come under this area.

→ **CIL incurred capex of ₹25bn during FY11, below its target of ₹36bn.** The Management has however indicated a capex of ₹43 bn during FY12E.

→ **CIL is in advanced talks to buy up to 40% stake in Indonesia's Golden Energy Mines in a deal valued between $750m and $1bn.** Golden Energy, a coal mining subsidiary of energy and infrastructure firm Dian Swastatika Sentosa, is estimated to have 400mn tons of reserves. It owns 10 coal mining areas across Indonesia including in Sumatra and Kalimantan islands, in the world's top exporting nation of coal for power plants.

Apart from buying stake in Indonesia's Golden Energy, CIL is in negotiations for buying coal blocks in Australia and the US and the deals are likely to be signed within the next 6 months.

CIL has made a provision of ₹6,000 Crs to its overseas acquisitions which once successful would add to the company's reserves.

OUTLOOK AND VALUATION

Given the rising demand supply gap, we believe CIL is well placed to reap the benefits of widening coal deficit. CIL is the world's largest coal mining company and enjoys near monopolistic status in the domestic market. **We Continue to maintain our positive stance on the company and revise our price target UPWARDS to ₹457 providing an upside of 10.2% from the current levels. At the CMP of ₹414.7 the stock is trading at 20x and 18x its FY12E and FY13E EPS of ₹20.57 and ₹22.83 respectively.**

FINANCIALS - Quarterly

INCOME STATEMENT	3Q11	4Q11	FY11
Net Sales	**12,692**	**15,016**	**50,234**
Expenditure			
Decretion (Accretion) of Stock	(152)	(1,323)	(1,253)
Consumption of Stores & Spares	1,353	1,536	5,231
Employee Cost	4,500	4,598	18,211
Power & Fuel	464	429	1,755
Social Overhead	563	719	2,229
Repairs	148	126	598
Contractual Expenses	1,147	1,365	4,580
Other Expenses	525	856	2,208
Overburden removal Adjustment	694	1,147	2,618
Provisions	69	364	578
Total Expenditure	**9,312**	**9,817**	**36,755**
EBITDA	**3,380**	**5,199**	**13,479**
(EBITDA %)	*26.6%*	*34.6%*	*26.8%*
Depreciation	414	478	1,673
EBIT	**2,967**	**4,721**	**11,806**
Interest	29	(31.7)	62
Finance Charges	4	4	17
Other Income	1,288	1,178	4,796
Exceptional Exp	16	(17)	60
PBT	**4,206**	**5,943**	**16,463**
Tax	1,580	1,722	5,596
PAT	**2,626**	**4,221**	**10,867**
Adjusted PAT	**2,642**	**4,204**	**10,928**
(Adjusted PAT %)	*20.8%*	*28.0%*	*21.8%*
EPS (₹)	4.18	6.66	17.30

FINANCIALS - Yearly

INCOME STATEMENT	FY10	FY11	FY12E	FY13E
Net Sales	**44,615**	**50,234**	**59,641**	**65,755**
Total Expenditure	**34,079**	**36,755**	**43,288**	**47,660**
EBITDA	**10,536**	**13,479**	**16,353**	**18,095**
(EBITDA %)	*23.6%*	*26.8%*	*27.4%*	*27.5%*
PBT	**13,965**	**16,463**	**19,682**	**21,843**
Tax	4,342	5,596	6,690	7,424
PAT	**9,622**	**10,867**	**12,992**	**14,419**
(PAT %)	*21.6%*	*21.6%*	*21.8%*	*21.9%*
EPS (₹)	15.32	17.30	20.57	22.83

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