Initiating Coverage
SECTOR: MINING

Coal India

Lord of the mines

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BSE SENSEX	S&P CNX
20,203	6,091

Issue Size (m shares)	631.6
Issue Opens	18 October 2010
Issue Closes	21 October 2010
Price Band (Rs)	225-245

Bloomberg	COAL IN
Equity Shares (m)	6,316
M.Cap. (Rs b)*	1,547.5
M.Cap. (US$ b)*	34.7

*At higher IPO band of Rs245/sh

Shareholding Pattern (%)

	Pre-issue	Post-issue
GoI	100	90
Public	-	10

Y/E March	2010	2011E	2012E
Sales (Rs b)	466.8	525.5	585.8
EBITDA (Rs b)	104.7	134.3	151.6
NP* (Rs b)	98.3	116.5	133.9
EPS (Rs)*	15.6	18.4	21.2
EPS Gr. (%)	141.9	18.5	14.9
BV/Share (Rs)	40.9	53.2	67.5
P/E (x) #	15.7	13.3	11.6
P/BV (x) #	6.0	4.6	3.6
EV/EBITDA (x) #	11.2	8.4	6.9
EV/ Sales (x) #	2.5	2.2	1.8
RoE (%)**	31.6	30.0	28.0
RoCE (%)	59.8	57.0	49.4

*Adjusted, **RoE is adjusted for OB reserves accounts, as appplicable under IFRS, #At higher IPO band of Rs245/sh

FY12E comparative valuations (x)

	P/E	P/BV	RoE (%)	EV/ EBIDTA
CIL**	11.6	3.6	28.0	6.9
CIL#	15.3	4.8	27.7	10.2
NTPC	15.9	2.3	15.1	11.0
PGCIL	14.5	2.0	14.2	10.7
NHPC	18.0	1.5	8.5	13.3
GAIL	15.6	2.9	18.6	4.9

**At Rs245/sh, # at TP of Rs325/sh

Target price: Rs325 — Buy

Lord of the mines

Sellers' Market + Possibilities to Improve Returns Meaningfully

We arrive at a price target of Rs325/share, valuing Coal India at Rs2,055b based on DCF methodology. At this price target, the stock would trade at 17.6x FY11E and 15.3x FY12E earnings. At the higher end of IPO price band of Rs245/share, the stock is valued at 11.6x PER and 3.6x P/B on FY12E basis, at a meaningful discount to utilities like NTPC, PGCIL, etc. Given the 'utility' model in 'commodity' business, coupled with the characteristics of sellers' market, we believe that CIL will largely have a linear earnings trajectory and impressive RoE / free cash generation. Reported RoE for FY10 was 44%, despite cash balance of Rs390b (1.4x capital employed). We recommend Subscribe.

'Utility' model in 'commodity' business

CIL's profitability and earnings growth are more linear compared to few of its peers globally, depicting "utility nature" of earnings in a "commodity business".

- **Size and scale:** Access to 64.3b tonnes of reserves, representing ~6% share of global proven reserves, and production (largest global reserves and production)
- **Growth visibility and sustainability:** Reserves to production (RP) ratio of 50 years (extractable reserves) and 122 years (proved reserves) provides further growth option, as ~40% of proved resources have not been considered for mining studies.
- **Competitive cost structure:** Given favorable geological conditions of many of its operational coalfields, resulting in lower strip ratio at 1.6x.
- **Sellers' market:** Given the widening demand-supply gap, we expect that imported coal will contribute 45%+ of the incremental requirement till FY15 v/s 6.8% currently, placing CIL favorably to capitalize on the characteristics of a sellers' market.

Possibilities to improve returns meaningfully

Growth for CIL, we believe, is a function of three key variables: (1) initiatives to ramp up production, (2) aligning business model to reap further benefits from market prices, and (3) cost savings plus efficiency improvements. Continued momentum on these levers, as in the past, provides possibilities to improve returns meaningfully. CIL is aligning its business model to gain from higher spot prices, with FY10 contribution at 26% of production and 38% of sales revenues.

There are possibilities to improve the ratio further as: (i) in the Integrated Energy Policy, the Planning Commission had envisaged increasing the share of e-auction to ~20% of production gradually from 10% currently, (ii) beneficiated coal capacity (4% of FY10 despatch) is underutilized given the lax environment regulations and CIL itself is planning capacity expansion to 7x of current utilization till FY17. We believe that the quantum of washed coal sales could increase meaningfully as MOEF is seriously thinking of imposing norms for using washed coal beyond a distance of 500km, vs 1,000kms now; and 27% of the capacity to be commissioned in the Eleventh Plan is at a distance of 1,000+ kms.

CIL's volume CAGR shows an increasing trend: 4.4% over the last 15 years, 5.3% over the last 10, and 5.9% over the last five years. Revised FY12 target of 487m tonnes of coal production suggests a 2-year volume CAGR of 6.1%. Capex is likely to be up 42% in FY11. Efficient subsidiaries (SECL, NCL and MCL) contribute 65% of the production, with just 30% of the total employees. As the contribution from these subsidiaries improves further, we expect efficiency improvements. Employee cost accounted for 34% of CIL's revenues and 46% of costs in FY10; employee strength has declined ~10% over FY07-10 (and nearly 30% since FY00).

Challenges: many, but surmountable

CIL is well placed to benefit from its dominant position in the Indian coal mining sector. However, the challenges are many, and revolve around production ramp-up being impacted by Naxalite movements, stringent environment norms, etc; feasibility of price increases given the extended implications; infrastructure bottlenecks, 26% sharing of profit with locals under new mining act, etc. While the challenges are many and could impact the growth in the medium term, we believe that they are surmountable over the longer term.

Expect earnings CAGR of 14% till FY13, meaningful free cash flow generation

We expect CIL to report earnings CAGR of 14% till FY13, driven largely by 4.4% CAGR in average realizations, 6.6% CAGR in dispatches and 297bp operating leverage, with EBITDA margins at 25.4% in FY13. A large part of the earnings growth is front-ended, with FY11 net profit estimated at Rs117b (up 19%) given 5% dispatch increase, 7.1% realization increase (as prices of raw coal were increased 11% w.e.f. October 2009) and 312bp operating leverage (with EBITDA margins at 25.6% in FY11) largely due to staff cost savings. We believe that there exist possibilities for upgrade in FY12/FY13 estimates, driven by improved product mix, higher realizations, operating efficiencies, etc. Key risks to our earnings estimates include slower than expected ramp-up in production, inability to increase prices / control costs and regulatory / policy changes.

Comparative valuations: Indian Utilities

Company	Mkt Cap	RoE (%)			P/BV (x)			P/E (x)			EV/EBITDA (x)		
	(Rs b)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
CIL*	**1,548**	**30.0**	**28.0**	**25.5**	**4.6**	**3.6**	**3.0**	**13.3**	**11.6**	**10.7**	**8.4**	**6.9**	**5.8**
NHPC	384	7.2	8.5	9.8	1.6	1.5	1.4	22.5	18.0	14.7	15.7	13.3	11.3
NTPC	1,725	14.4	15.1	16.0	2.5	2.3	2.1	18.2	15.9	13.8	10.5	11.0	10.0
PGCIL	481	13.9	14.2	14.9	2.2	2.0	1.8	18.1	14.5	12.4	12.0	10.7	9.9
GAIL	628	19.1	18.6	19.7	3.2	2.9	2.5	17.0	15.4	12.7	14.7	13.0	11.6

*At higher IPO band of Rs245/sh

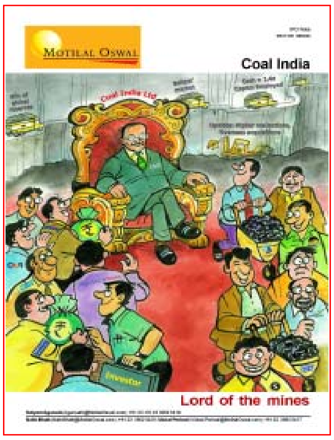
Source: Company/MOSL

Comparative valuations: Global Peers

Company	Mkt Cap (USD m)	Resource (m ton)	Reserves (m ton)	EV/Res. CY10 (US$/ton)	P/E (x) CY10	CY11	CY12	RoE (%) CY10	CY11	CY12
Consol Energy	8,138	-	4,500	2.6	15.2	9.9	7.6	21.7	21.1	22.5
Peabody Energy	13,130	9,015	6,836	2.2	16.0	10.9	9.2	18.1	22.6	22.5
China Shenhua Energy	69,728	14,850	5,860	12.7	13.0	11.4	10.7	17.4	17.2	16.2
China Coal Energy	19,582	16,400	6,160	2.5	14.9	12.7	11.0	15.0	15.3	15.8
Exxaro Resources Ltd	6,126	14,142	1,771	3.7	8.1	6.3	5.3	33.9	34.9	32.6
Coal & Allied Industries	8,630	4,917	1,044	7.9	13.9	9.7	9.4	33.5	46.9	39.8
Adaro Energy	7,503	3,484	870	9.8	19.6	12.6	10.4	18.5	24.0	25.1
Bumi Resources	4,877	7,782	2,904	3.1	26.0	17.4	14.9	20.1	23.8	22.3
CIL*	**34,389**	**64,267**	**21,744**	**1.6**	**13.3**	**11.6**	**10.7**	**30.0**	**28.0**	**25.5**

*At higher IPO band of Rs245/sh; for CIL CY10 = FY11

Source: Company/MOSL/Bloomberg



'Utility' model in 'commodity' business

Given the existing framework of notified pricing regime in India for ~75% of production and large captive user base, CIL is immune to volatility in its business model, driven either by volume or price on account of global factors. Lower cost of production, part linkages to market prices, etc enables CIL to be significantly profitable - 44% RoE for FY10, amongst the best globally. Also, CIL's profitability and earnings growth are much more linear compared to few of its peers globally, depicting "utility nature" of earnings in a "commodity business".

- **Size and scale:** Access to 64.3b tonnes of reserves, representing ~6% share of global proven reserves and production (largest global reserves and production)
- **Growth visibility and sustainability:** Reserves to production (RP) ratio of 50 years (based on extractable reserves) and 122 years (based on proved reserves) provides options to further enhance growth, as ~40% of the proved resources have not yet been considered for mining studies
- **Competitive cost structure:** Given favorable geological conditions of many of its operational coalfields, with relatively thick flat-lying coal seams located at shallow depths, strip ratio is low at 1.6x. This in turn results in low cost of coal extraction.
- **Sellers' market:** Given the widening demand-supply gap, we expect that imported coal will contribute 40%+ of the incremental requirement till FY17 v/s 6.5% currently, placing CIL favorably to capitalize on the characteristics of a sellers' market.

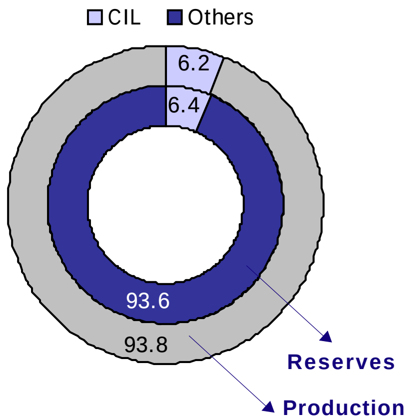
1] Size and scale: ~6% share of global coal reserves and production

CIL has access to 64.3b tonnes of reserves, the largest in the world. Of this, 52.4b tonnes are proven based on Indian Standard Procedure (ISP) guidelines, representing ~ 6% share of the global proven reserves. Production in FY10 was 431m tonnes, representing ~6% share of the global production. CIL is the largest coal producer globally.

CIL controls 6%+ share of global coal reserves and production. It is the largest coal reserve owner and producer in the world

CIL has size and scale economics (%)

Global coal production & reserves distribution



FY10 Reserves (b tonnes)

Category	
- Proved	52,428
- Indicated	9,897
- Inferred	1,942
Total	**64,267**
Extractable Reserves	21,744

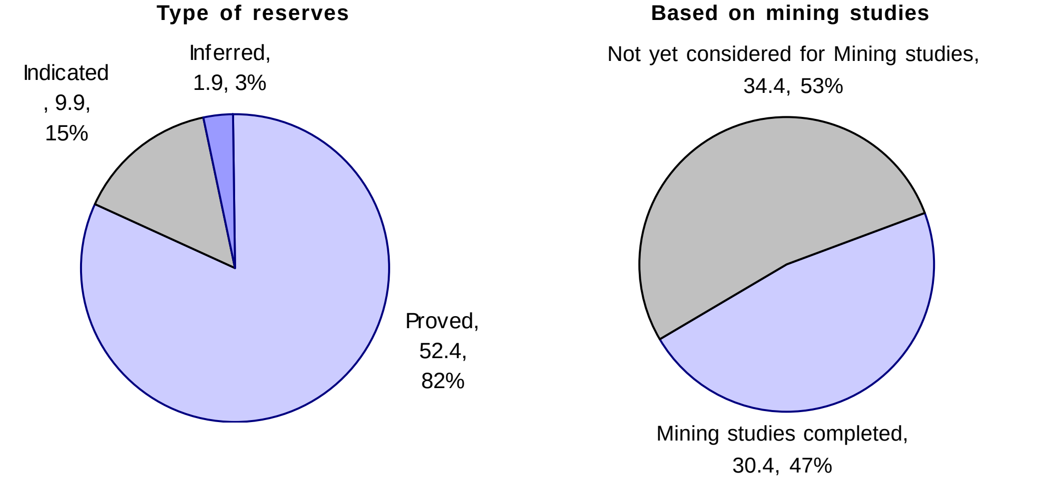
Source: Company/BP Statistical Review

2] Reserves to production (RP) ratio of 50 years (extractable reserves), 122 years (proved reserves)

Of the total reserves of 64.3b tonnes, CIL has already conducted mine planning and feasibility studies on 30.4b tonnes (47% of total reserves). Of this, extractable reserves are 21.8b tonnes, where extraction is established to be technically and economically feasible through mining bids. The reserve to production ratio for CIL is calculated at 50 years based on the extractable reserves (34% of total reserves) and at 122 years based on proved reserves. There exist possibilities of increased part of proven resources being classified as "extractable reserves" post further mining studies, improved economics, etc, further improving the visibility on growth option.

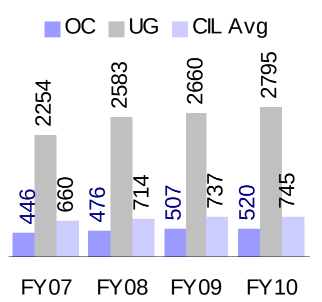
82% of the reserves are in proven category, while mining studies have been undertaken for just 47% of the reserves. Based on proven reserves, RP ratio stands at 122 years

Distribution of reserves: 82% are in proven category (b tonnes)



Source: Company

Cost of production for CIL is competitive (Rs/tonne)



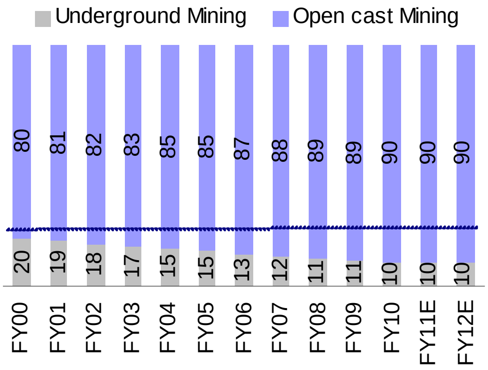
3] Favorable geographic and geological conditions entail competitive cost structure, despite inherent inefficiencies

CIL enjoys competitive benefits, given the favorable geographic and geological conditions at many of its operational coalfields, with relatively thick flat-lying coal seams located at shallow depths, stable ground conditions and simple geological structures. The conducive economics have resulted in low strip ratio, as large open cast mines are brought into operation.

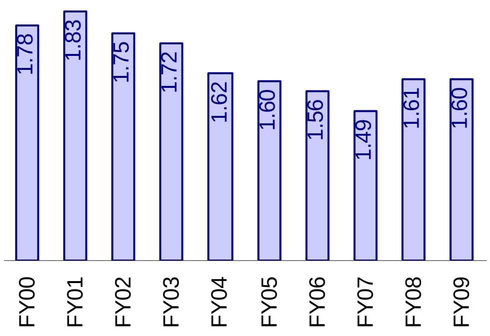
CIL derives ~90% of its production from open cast mines, as compared to 80% in FY00. This coupled with strip ratio of 1.6x has resulted in lower average cost of production at Rs745/tonne. Average cost of production from open cast mine stands at Rs500/tonne+, as compared to ~Rs2,800/tonne from underground mining (due to old legacy mines awarded to it at the time of nationalization). This, we believe is a significant advantage for CIL, enabling it to be among the most competitive miners globally.

CIL derives ~90% of its production from open cast mines, as compared to 80% in FY00. This coupled with lower strip ratio at 1.6x has resulted in lower average cost of production at Rs745/tonne

Production break-up (% of total production)



Lower strip ratio (x)



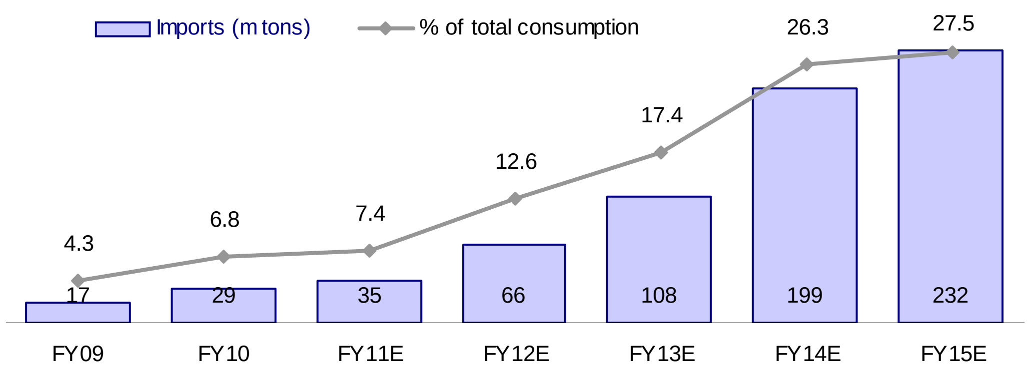
Source: Company/MOSL

4] India's coal demand constrained by availability, CIL operates in a sellers' market

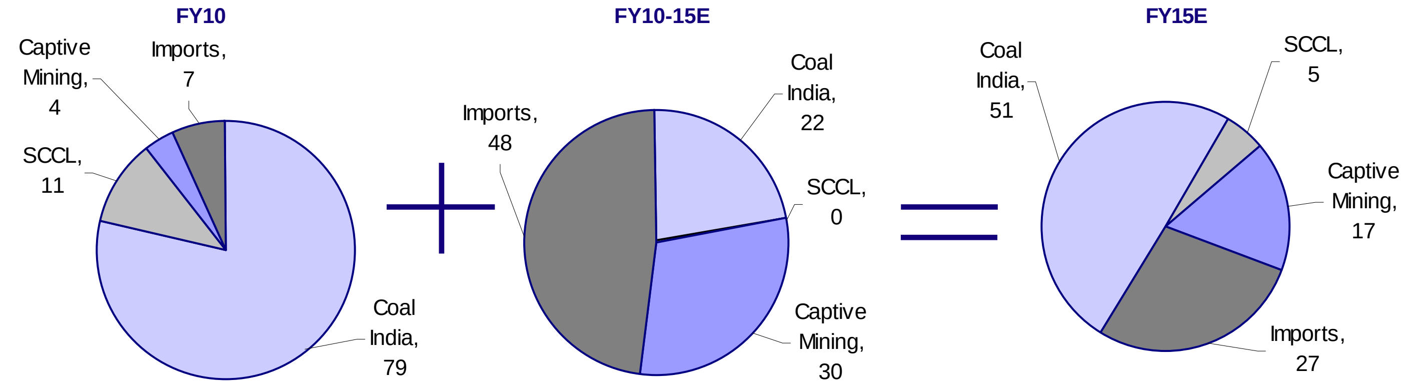
India's coal demand for FY10 stood at ~600m tonnes, v/s domestic availability of 532m tonnes, leading to import of 65m tonnes. Demand for coal (non-coking) from the Power sector was 441m tonnes in FY10 v/s domestic availability of 412m tonnes (387m tonnes by CIL), entailing import of 29m tonnes. Going forward, the demand-supply gap is likely to widen meaningfully, and we expect that imports will contribute 45%+ of the incremental requirement till FY15 v/s 6.8% currently. CIL is favorably positioned to capitalize on the widening gap. Constrained logistics infrastructure (particularly railways and ports) will entail that imports will not be a feasible option for several projects.

Going forward, the demand-supply gap is expected to widen meaningfully, given accelerated pace of capacity additions

Coal import to contribute 28-30% of total consumption of coal by power sector



Expect 45%+ of incremental requirement till FY15 to be met through imports (% consumption mix)



Source: Company/MOSL

FSAs signed by CIL one-sided, a reflection of the sellers' market: For instance, the new power fuel supply agreements (FSAs) entail that:

- In the case of shortfall in Annual Contracted Quantity (ACQ), CIL can arrange coal from alternate sources in India, to be supplied directly to customer, at the cost of the customer. The shortfall in coal supplies may also be met through imported coal at the cost of the customer; and the customer has no right to decline the offer for supply of imported coal in case of shortfall.
- Further, CIL will not have to pay any penalty if the supplies are 50% of the ACQ and in case of shortfall beyond 50%, penalty is just 10% of the price.

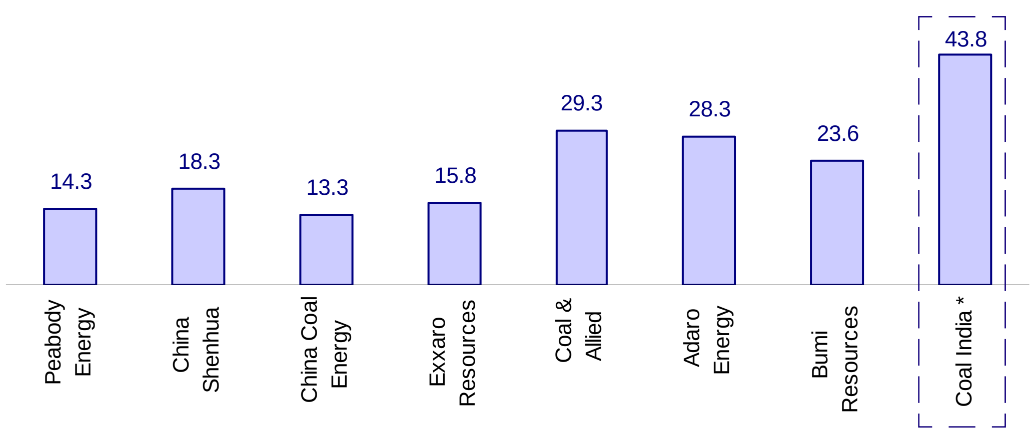
5] 'Utility' model in a 'commodity' business, superior profitability amongst peers

Given the existing framework of notified pricing regime in India and large captive user industry, CIL is immune to volatility in its business model, driven either by volume / price on account of global factors. Thus, despite being in a 'commodity business', CIL's business model resembles the characteristics of a 'utility' company.

Given the lower volume/price volatility, we expect CIL's profitability to be more consistent than its global peers. Also, its balanced mix of 'take or pay' and 'market linked' offtake provides the company with upsides on the pricing front, while retaining the characteristics of 'utility' business.

Lower capital employed for CIL given better geological conditions and favorable terms of trade results in superior ROE

RoE of CIL is highest amongst peers (%)

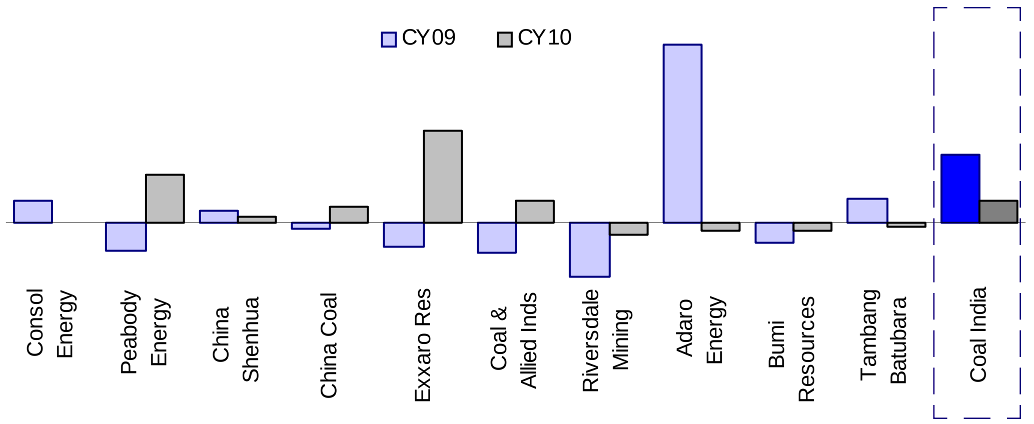


*For CIL, the numbers are for FY10, v/s CY09 for other players

Source: Company/MOSL

We expect CIL's profitability to be more consistent than its global peers

Earnings volatility is huge for global players (% YoY)



Source: Company/MOSL

Possibilities to improve returns meaningfully

CIL is aligning its business model to gain from higher spot prices, with FY10 contribution at 26% of production and 38% of sales. There are possibilities to improve the ratio further as: (i) in its Integrated Energy Policy, the Planning Commission had envisaged increasing the share of e-auction to ~20% of production gradually from 10% currently, (ii) beneficiated coal capacity (4% of FY10 despatches) is underutilized given the lax environment regulations and CIL itself is planning capacity expansion to 7x+ current utilization till FY17.

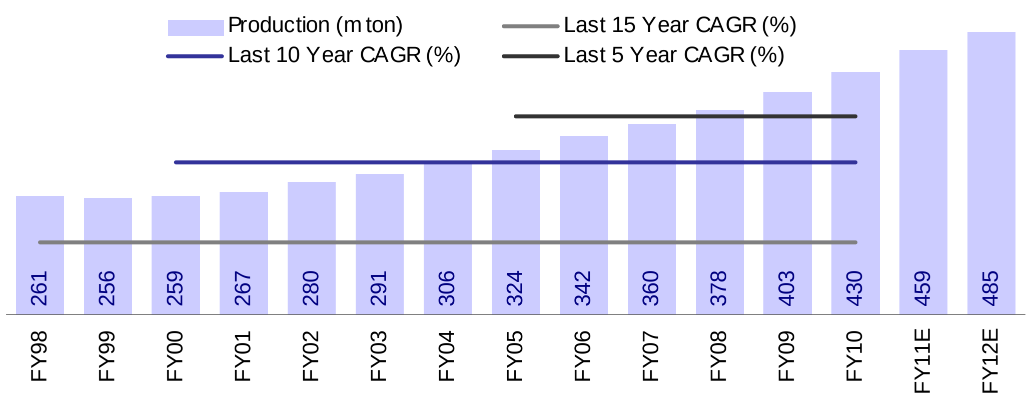
Growth for CIL, we believe, is a function of three key variables: (1) initiatives to ramp up production, (2) aligning business model to reap further benefits from market prices, and (3) cost savings plus efficiency improvements. Continued momentum on these levers, as in the past, provides possibilities to improve returns meaningfully. CIL's volume CAGR shows an increasing trend: 4.4% over the last 15 years, 5.3% over the last 10, and 5.9% over the last five years. Revised FY12 target of 487m tonnes of coal production suggests a 2-year volume CAGR of 6.1%. Capex is likely to be up 42% in FY11. Efficient subsidiaries (SECL, NCL and MCL) contribute 65% of the production, with just 30% of the total employees. As the contribution from these subsidiaries improves further, we expect efficiency improvements. Employee cost accounted for 34% of CIL's revenues and 46% of costs in FY10; employee strength has declined ~10% over FY07-10 (and nearly 30% since FY00).

1] Initiatives to ramp up production

As per the Annual Plan 2011 of the Ministry of Coal, CIL intends to increase production from 431m tonnes in FY10 to 461m tonnes in FY11 (up 11%) and further to 487m tonnes in FY12 (up 5%). The original target was production of 521m tonnes in FY12, which has since been revised to 487m tonnes. CIL's production has grown at 5-8% over the last 15 years; however, a closer look reveals an increasing trend: CAGR of 4.4% over the last 15 years, 5.3% over the last 10, and 5.9% over the last five years. Revised FY12 target of 487m tonnes of coal production suggests a 2-year volume CAGR of 6.1%, despite the challenges relating to environment, land acquisition, naxalite movements, etc.

CIL's volume CAGR shows an increasing trend: 4.4% over the last 15 years, 5.3% over the last 10, and 5.9% over the last five years. Despite slippages, we expect 6.1% volume CAGR till FY12

CIL's production showing increasing trend (m tonnes): a closer look



Source: Company/MOC/MOSL

Going by the ongoing projects approved by the Board, production will increase by 185m tonnes through the development of 77 projects/mines at a capex of Rs110b. Of these, 32 mines are operational and contributed 57m tonnes to production in FY10; peak production of 104m tonnes would be reached over a period of time, as per mine plan.

CIL's production ramp-up plans: investment approval accorded

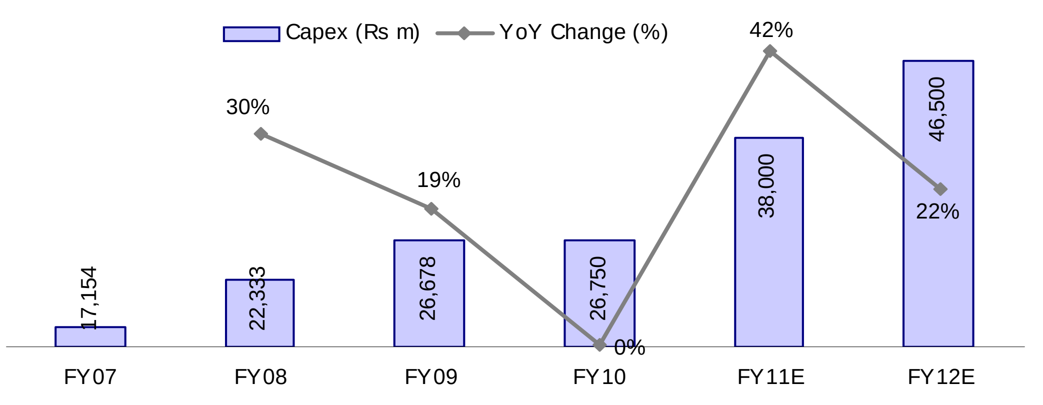
No. of Projects	Incr. Prodn (m ton)	Capex (Rs m)	Remarks
32	104	50,445	These projects contributed 57m ton of production in FY10
25	48	33,857	Expected to become operational by FY12
20	33	25,763	Expected to become operational in 12th plan period
77	**185**	**110,065**	

Source: Company

Capex on exploration/production to boost production: CIL has outlined significant increase in planned capex for FY11 (up 42%) and FY12 (up 22%), post flat growth in FY10. We believe that this is a good lead indicator of the possible ramp-up in production, going forward. Also, the capex for FY11 and FY12 includes accelerated capex on the exploration activities by CIL to improve the quantum of extractable reserves by enhancing drilling activities. CIL's capex on exploration increased from Rs988.8m in FY08 to Rs1,738.6m in FY09 and Rs2,486.5m in FY10. Even otherwise, the RP ratio of 55 years based on extractable reserves provides enough headroom to increase production.

CIL has outlined significant increase in planned capex for FY11 (up 42%) and FY12 (up 22%), post flat growth in FY10

Planned capex up 42% in FY11 v/s flat in FY10



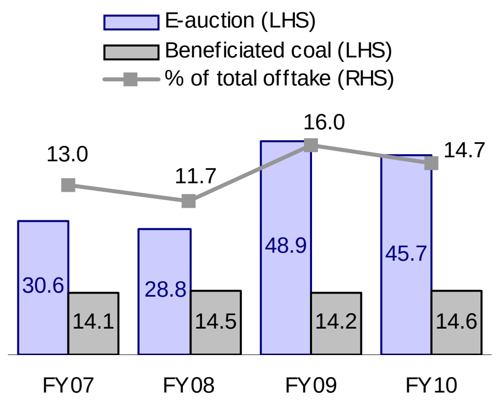
Source: Company/MOSL

2] Aligning business model to gain from higher spot prices

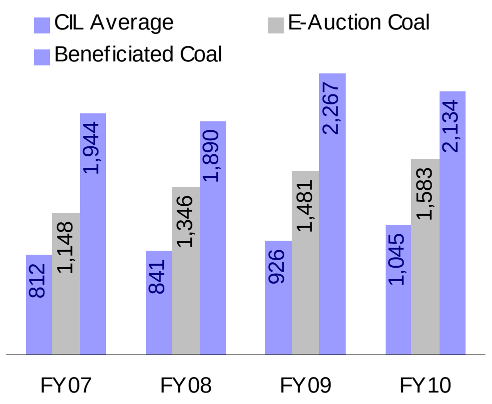
Coal prices in India are governed and fixed by CIL, in consultation with the central government (Ministry of Coal). CIL has increased its notified prices for supply under-long term fuel supply agreement (FSA) by ~5% CAGR over FY00-10; price realizations for sales through e-auction, beneficiated coal and high grade coal are linked to market prices, including imported coal. Sales through market-linked mechanisms already account for ~26% of production through a mix of e-auction (9-10%), beneficiated coal (~4-5%) and high grade coal (10%); and contribute ~38%+ of the company's sales revenues.

Sales through market linked mechanisms already account for ~26% of production through a mix of e-auction (9-10%), beneficiated coal (4-5%) and high grade coal (10%), and contribute ~35% of the company's sales

E-auction/beneficiated coal (m tonnes) and % of total offtake



Realizations in e-auction and beneficiated coal much higher (Rs/tonne)



Source: Company/MOSL

Interesting possibilities for CIL to realign its business model to gain from increased prices.

- Planning Commission, in its Integrated Energy Policy had envisaged increasing the share of **e-auction** to ~20% of production gradually, but has been constrained by availability.
- Similarly, **beneficiated coal (washed)** supply has been ~14m tonnes in FY10, v/s installed capacity of ~39m tonnes. Also, CIL plans to increase capacity to 111m tonnes at a capex of Rs23b by FY17. Outdated technology, non-imposition of strict norms on low-ash coal usage, etc has led to under-utilization of the current potential. Currently, guidelines set by Ministry of Environment and Forest (MOEF) stipulates usage of coal containing ash not more than 34% for power plants situated at a distance more than 1,000km. The requirements would increase as 27% of planned capacity in the Eleventh Plan would be located at more than 1000km distance. As the pressure from environmentalists is mounting, MOEF is seriously thinking to bring the required norms for using 34% washed coal beyond a distance of 500km; which would open up the market further.
- **Higher grade coal (A, B and C)** contributes 17% of the total production, while we understand that the quantum of specific MOUs signed are for ~10%. Thus, there exist possibilities to increase the same further.

3] Incremental production from efficient, profitable mines

While CIL has ~8 coal producing subsidiaries, there is a noticeable contrast in terms of the operating matrices and profitability for efficient subsidiaries (SECL, MCL and NCL) and others. As the contribution from these subsidiaries improves further, we expect profitability to improve.

- In FY10, the efficient subsidiaries contributed 65% of production, up from 60% in FY06. These subsidiaries have contributed 86% of the incremental coal production over FY06-10.
- Within the efficient subsidiaries, four coal fields namely Korba (SECL), Singrauli (NCL) and Talcher, IB Valley (MCL) contribute 58% of CIL's coal production. These have contributed 81% of the incremental production over FY06-10.
- Of the total employee base of 403,274 at CIL, the efficient subsidiaries employ just 121,085. Thus, just 30% of the employees contribute 65% of the production largely given by open cast mine operation.
- The efficient subsidiaries reported PBT of Rs75b in FY10 as against a loss of Rs22b in other subsidiaries. Almost the entire profitability of CIL is being driven by the efficient subsidiaries.

Efficient subsidiaries to drive efficiency improvements

Contributed 65% to FY10 production and 86% of the incremental production during FY06-10	Employees at 121,085; just 30% of the total employees of CIL	Contribute to the entire profitability; as other subsidiaries are largely loss making

** Note: We have classified SECL, MCL and NCL as efficient subsidiaries*

Noticeable contrast in terms of operating matrix for efficient subsidiaries (FY10)

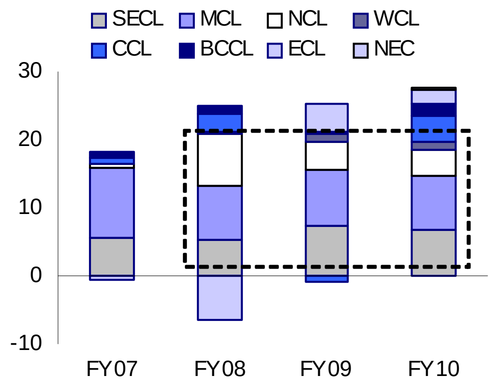
	Reserves (m tons)	Production (m tons)	Strip Ratio (x)	Man-power (nos)	Productivity (Output / Man Shift) OC (m ton)	UG (m ton)	Overall (m ton)
ECL	10,846	30.1	2.29	90,470	6.79	0.46	1.38
BCCL	7,714	27.5	2.61	76,369	4.71	0.39	1.76
CCL	11,673	47.1	1.23	56,553	5.22	0.36	3.6
NCL	**3,482**	**67.7**	**2.63**	**16,450**	**13.69**	**1.12**	**13.68**
WCL	5,572	45.7	3.71	62,492	3.95	1.31	2.58
SECL	**11,787**	**108**	**1.13**	**82,054**	**17.37**	**1.27**	**5.74**
MCL	**13,332**	**104.1**	**0.65**	**20,869**	**18.02**	**0.77**	**13.98**
NEC	381	1.1	6.50	2,962			

** Note: We have classified SECL, MCL and NCL as efficient subsidiaries*

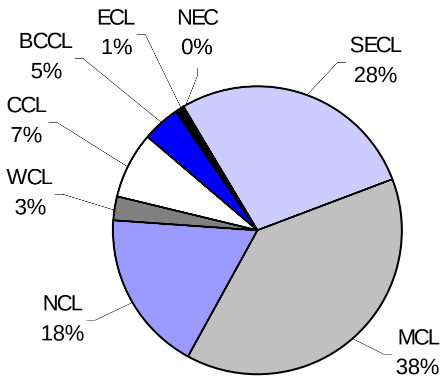
In FY10, efficient subsidiaries contributed 65% of the production, up from 60% in FY06. These subsidiaries have contributed 86% of the incremental coal production over FY06-10

Incremental production from efficient subsidiaries

(m tonnes)

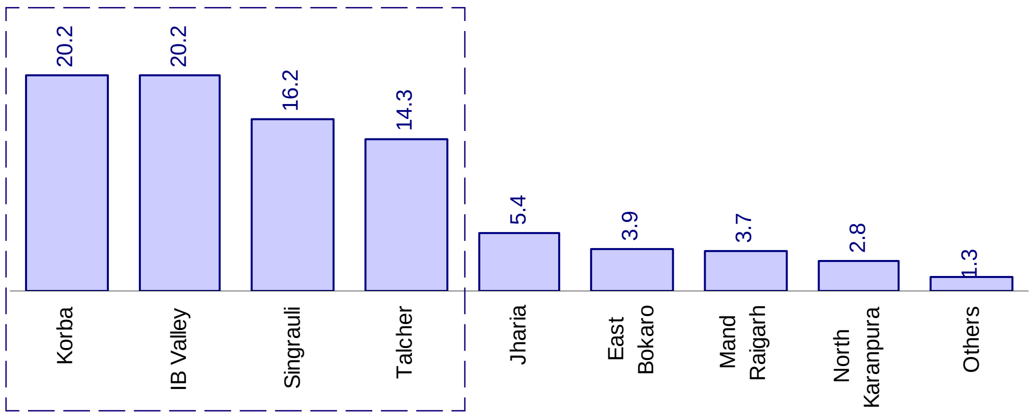


(Contribution over FY06-10, %)



Within the efficient subsidiaries, four coal fields namely Korba (SECL), Singrauli (NCL) and Talcher, IB Valley (MCL) contribute 58% of CIL's coal production. These have contributed 81% of the incremental production over FY06-10

Four coal fields contributed 80% of the incremental production during FY06-10 (m tonnes)



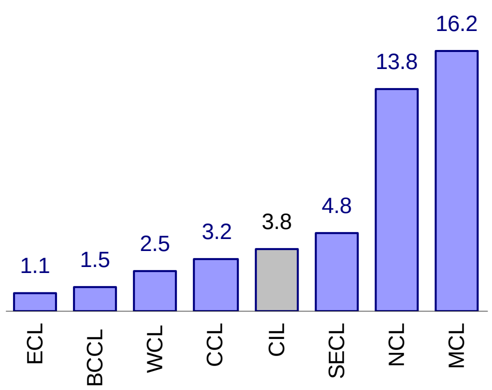
Source: Company/MOSL

4] Cost control to boost efficiency further

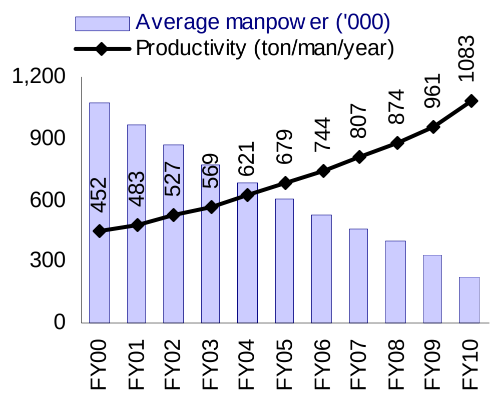
CIL's operating cost structure is heavily dominated by stores & spares (S&S, 14%) and employee costs (46%), which together account for 60% of its total cost. Employee cost has increased from 41% of sales in FY07 to 46% in FY10, while S&S cost has declined from 17% to 14%. Within the S&S cost, fuel cost has declined, given efficiency improvements (down from 40.2% of S&S cost to 35%), while the cost of explosives has increased (up from 13% in FY07 to 19% in FY10).

Employee cost accounted for 34% of CIL's revenues and 46% of costs in FY10. The company's employee strength has declined ~10% over FY07-10 (~30% since FY00) and ~86% of employees are workmen. Wage bill and pay revision has been a key swing factor in the performance of CIL. We believe that there exist possibilities to further improve efficiency, as the efficient subsidiaries (SECL, NCL and MCL) controlling 65% of the production, employ just 30% of the total employees. Also, these subsidiaries have contributed 86% of the incremental production since FY06. In FY10, manpower productivity (measured in output in tonnes per man-shift) was an average of 3.79 for CIL; it varied from 1.38 for BCCL to 16.2 for MCL.

Trend in manpower productivity (tonnes/man-shift)



Trend in output and staff strength



Source: Company/MOSL

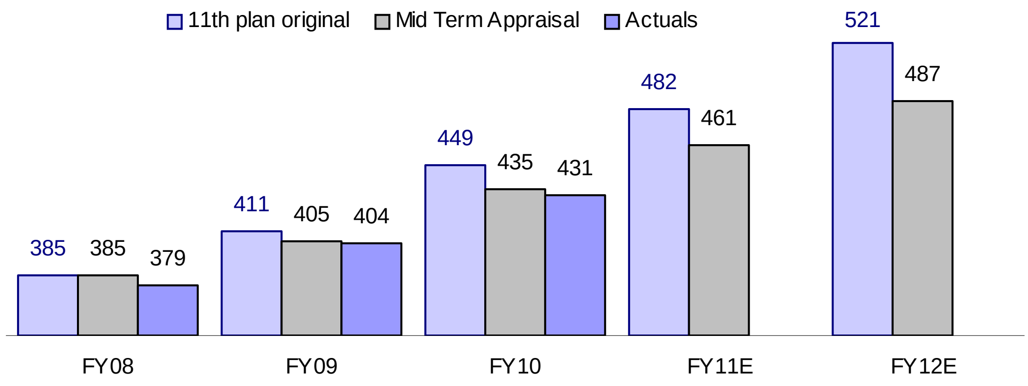
We believe tight control on fuel cost (both oil and explosives) and employee cost is key to improving cost efficiency. As regards employee cost, wage revision for workmen is governed by five-year wage settlements. The next wage revision is due in 2QFY12, while the pay revisions for executives have already been finalized in 1QFY10 (with effect from 4QFY07).

Challenges: many, but surmountable

CIL is well placed to benefit from its dominant position in the Indian coal mining sector. However, the challenges are many, and revolve around production ramp-up being impacted by Naxalite movements, stringent environment norms, etc; feasibility of price increases given the extended implications; infrastructure bottlenecks, etc. While the challenges are many and could impact the growth in the medium term, we believe that they are surmountable over the longer term.

CIL's production targets have been revised downwards (m tonnes)

CIL has seen slippages, with FY12 production target revised downwards to 486m tonnes from 521m tonnes earlier

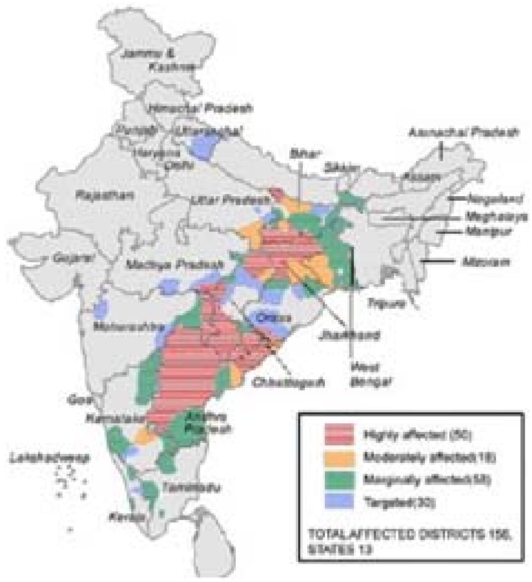


Source: Planning Commission

1] Production ramp-up constrained by Naxalite movement, other challenges

Large parts of India's coal reserves are located on the Eastern belt, which has seen significant increase in Naxalite movement. This can be a key challenge both in putting new mines into production by acquiring land and ramp-up in existing mines. 71% of CIL's extractable reserves are in three states, viz. Orissa, Jharkhand and Chattisgarh, which are affected by the Naxalite movement. The contribution of these states to FY10 production was 57%. The Naxalite movement is a challenge for the business operations in these states and CIL has limited resources/bandwidth to steer the same on its own.

India's naxalite-impacted areas span across coal-rich regions



Source: Institute of Conflict Management

71% of CIL's reserves are in Orissa, Jharkhand and Chhattisgarh. These states are impacted by naxalite movement

State-wise distribution of extractable reserves and CIL's FY10 production (m tonnes)

	Orissa	Jhar khand	Chattis garh	MP	West Bengal	Maha rashtra	Assam	Total
No. of Coal Fields	2	7	2	4	2	3	1	
FY10 Production	104	59	83	100	46	39	1	431
Proportion (%)	**24**	**14**	**19**	**23**	**11**	**9**	**0**	
Extractable Reserve	8,012	4,095	3,329	2,900	1,945	1,224	239	21,744
Proportion (%)	**37**	**19**	**15**	**13**	**9**	**6**	**1**	

Source: Company/MOSL

Refer to our report dated 18 August 2010


MOTILAL OSWAL
Expert Speak
Maoist insurgency and its implications for business

Extracts from our report: Maoist insurgency and its implications for business [Aug 2010]

Maoism is one of the most significant challenges for contemporary India, given the Maoists' coherent strategy, organizational strength and modus operandi. Their ultimate objective is to spread the "people war", seize state power and exploit issues rather than necessarily resolve them. 223 districts (out of 646) have reported incidents of Maoism; however, recurring violence mainly involves jurisdiction of 400 out of 14,000+ police stations in the country. This suggests that with the right government resolve and strategy, the problem can be addressed within five years. Meanwhile, if business wishes to avoid the adverse impact of Maoism, it needs to exercise due diligence addressing local issues, including understanding of power structures and providing for suitable public benefit programs.

Particular impact on mining areas: Here again, the distinction between existing and new facilities is important. Problems are usually less in existing facilities. However, problems have arisen where a new contract or long lease has involved (a) extremely lucrative land deals essentially as a result of political misappropriation, or (b) large scale environment or displacement issues. While many of these projects are on government-owned forest land, they result in an abrupt cutting off of years of the local people's dependence on the forest resources for livelihood. The compensation given to them is usually inadequate, is delayed and at times does not even arrive given the rampant corruption.

2] Environment/forest clearances and land acquisition are equally challenging

CIL has been facing headwinds for its planned expansion, given delays in requisite environment/forest clearances. MoEF's classification of mining areas as "go" areas and "no-go" areas has impacted 619m tonnes of CIL's production potential and covers 44% of total mining area under CIL. While the MoEF has reviewed its classification of "no-go" areas, any subtle action on this front could delay CIL's ability to ramp-up production.

Also, land acquisition is becoming a key contentious issue, on the back of Naxalite movement and lack of support of local people. CIL could be required to acquire several thousand hectares of land for its proposed development of 77 blocks. The support of the central/state government is therefore inevitable.

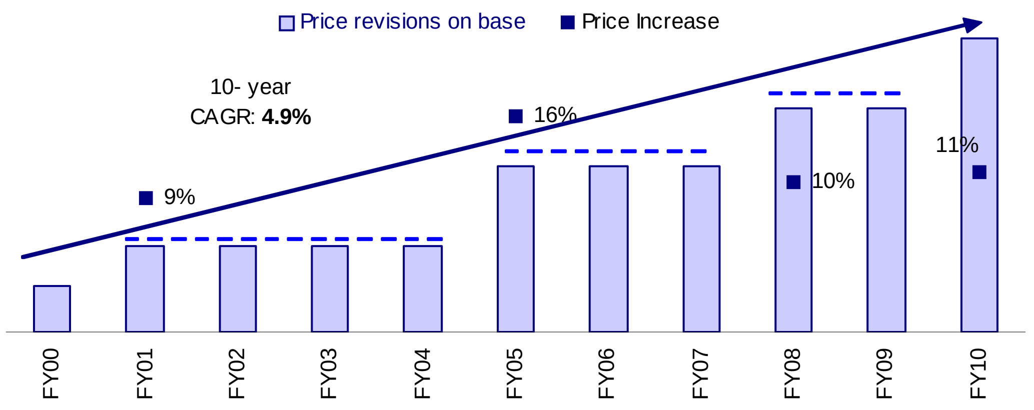
CIL acquires land under the Land Acquisition Act: Being a Government owned company, surface land is acquired by CIL under the Land Acquisition Act, which enables acquisition of land by public sector companies for 'public purpose'. Land acquired under the Land Acquisition Act vests with CIL as Freehold Land. The advantage is that while there may be objections related to the compensation awarded, the acquisition of land for public purpose cannot be challenged.

3] Price increase a sensitive issue - CIL's gain, SEB's loss

Coal prices in India have been deregulated and right to notify prices vests on CIL since 2000. In the last 10 years, CIL has increased the prices of raw coal (available under long-term linkages) by just ~5% CAGR. Thus, the impact has been far less than the movement in global coal prices. Also, most attempts to increase coal prices have been driven by cost push; price increases have merely passed on the cost increases to the consumers. Attempts for a meaningful price revision could face stiff opposition - coal pricing is a sensitive issue especially given the monopoly situation and CIL's high profitability (FY10 reported RoE at 44%). While APM gas prices were recently increased by 110% in an attempt to move towards market pricing of energy, we believe replicating this for coal will be difficult, given the extended implications.

Most attempts to increase coal prices have been driven by cost push; price increases have merely passed on the cost increases to the consumers

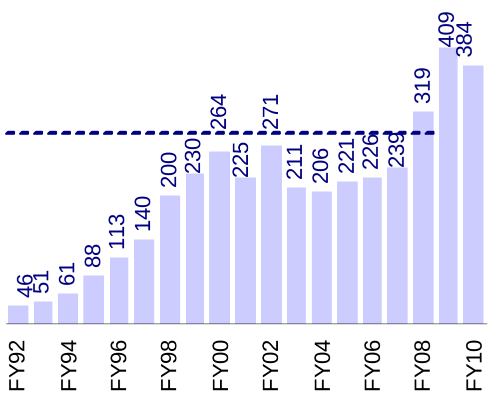
CIL's price increases have been largely led by cost increases



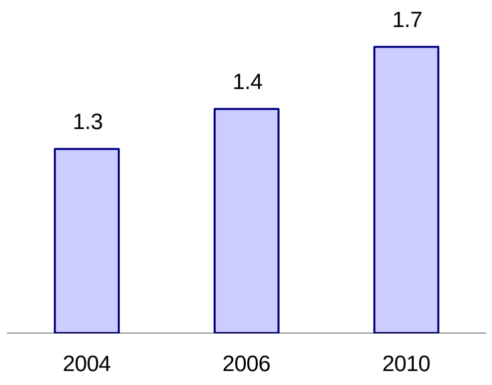
Source: Company/MOSL

Coal price hike will impact SEB financials - regulators have favored the creation of regulatory assets v/s the option of a tariff shock to consumers

SEB losses (Rs b) have increased…



…and so have NTPC's coal-based project tariffs (Rs/unit)

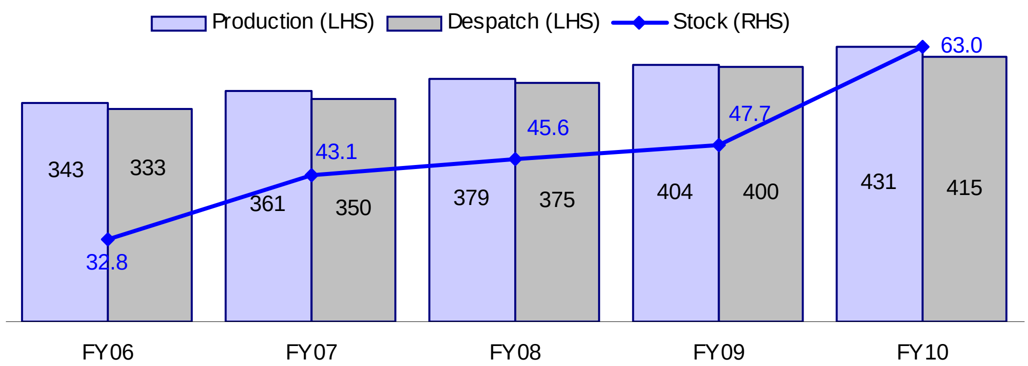


Source: Planning Commision/NTPC

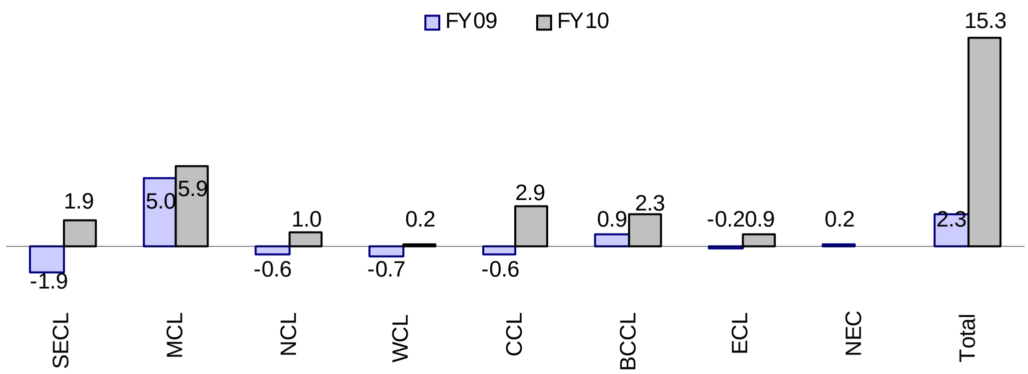
4] Infrastructure bottlenecks

Inventory levels in CIL's balance sheet have been rising due to infrastructure bottlenecks; its current stock pile stands at 63m tonnes (15% of FY10 production). The bottlenecks largely pertain to availability of wagons and other logistics issues. CIL requires 205-210 wagons everyday v/s availability of 170 wagons a day from the Indian Railways. 47% of its coal dispatches are transported through the railways, and is likely to increase as 27% of the Eleventh Plan projects are located at a distance of 1,000km+ from coal mines.

Stock piles have increased, leading to dispatches below production levels (m tonnes)



Increase/decrease in stock piles (m tonnes, production less offtake)



Source: Company/MOSL

5] Revised Mining Bill calls for 26% profit sharing with persons impacted by mine development

Revised Mining Bill proposes to amend the existing Mines and Mineral Development and Regulation Act, 1957. It has been approved by Group of Ministers headed by Mr Pranab Mukherjee on September 17, 2010. The bill stipulates that the miners should share 26% of profits with locals, who are impacted by the mine development activity. The government proposes to introduce the Bill in the winter session of Indian Parliament in 2010. After such introduction, the Bill is likely to go to a standing committee for further deliberations. This could potentially impact the recurring earnings of CIL and our estimates currently do not factor the same.

However, we understand that CIL carries out social development activities voluntarily around the mine development, in addition to the R&R activities. While the amount towards social development activities is charged to Profit & Loss account on yearly basis, the cost of R&R activity is included in the project cost of mine development. Thus, we understand that CIL could partially offset the 26% profit sharing against these heads and **actual impact from the implementation could be more diluted**.

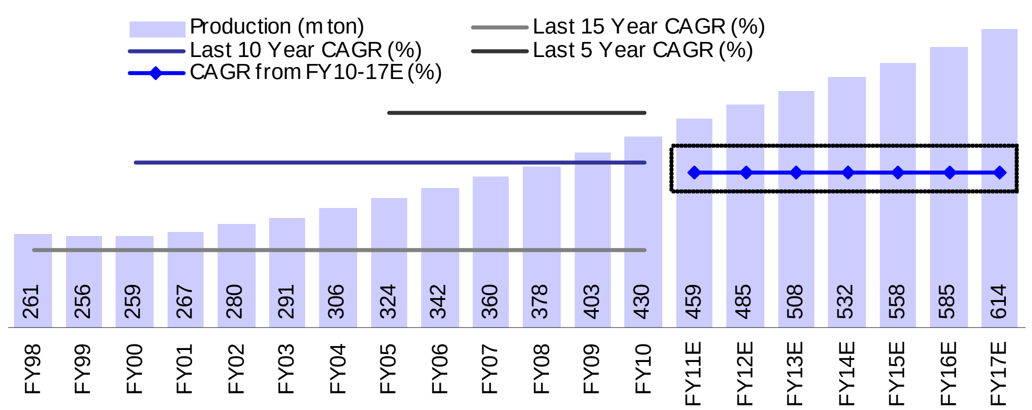
Expect earnings CAGR of 14% till FY13, meaningful free cash flow generation

We expect CIL to report earnings CAGR of 14% till FY13, driven largely by 4.4% CAGR in average realizations, 6.6% CAGR in dispatches and 297bp operating leverage, with EBITDA margins at 25.4% in FY13. A large part of the earnings growth is front-ended, with FY11 net profit estimated at Rs117b (up 19%) given 5% dispatch increase, 7.1% realization increase (as prices of raw coal were increased 11% w.e.f. October 2009) and 312bp operating leverage (with EBITDA margins at 25.6% in FY11) largely due to staff cost savings. We believe that there exist possibilities for upgrade in FY12/FY13 estimates, driven by improved product mix, higher realizations, operating efficiencies, etc. Key risks to our earnings estimates include slower than expected ramp-up in production and inability to increase prices / control costs.

We arrive at a price target of Rs325/share, valuing Coal India at Rs2,055b based on DCF methodology. At this price target, the stock would trade at 17.6x FY11E and 15.3x FY12E earnings, at par with utilities like NTPC, PGCIL, etc. Given the 'utility' model in 'commodity' business, coupled with the characteristics of sellers' market, we believe that CIL will largely have a linear earnings trajectory and impressive RoE / free cash generation. Reported RoE for FY10 was 44%, despite cash balance of Rs390b (1.4x capital employed).

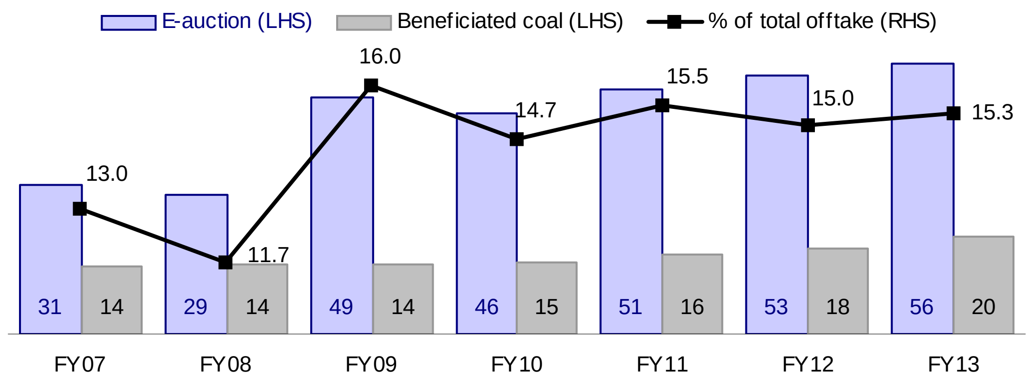
CIL's production is likely to remain muted till FY13 and we have factored in contribution from new mines from FY14. We estimate 5% CAGR in volume growth till FY17, v/s 6% over FY05-10

Production growth to be lower than historical averages, given the many challenges (m tonnes)



Proportion of e-auction and beneficiated coal is expected to improve marginally from 14.8% in FY10 to ~15.3% by FY13; growth is constrained by production/supply-side issues. However there exist reasonable possibilities of positive surprises

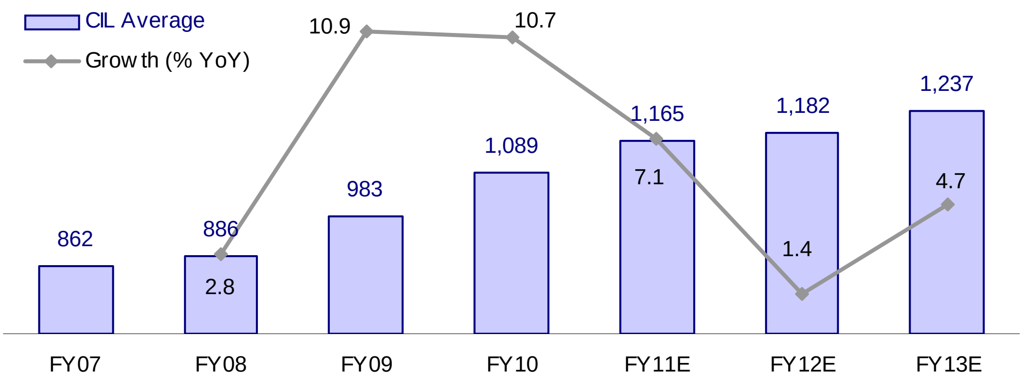
Gradual pick-up expected in contribution from e-auction/beneficiated coal (m tonnes)…



Source: Company/MOSL

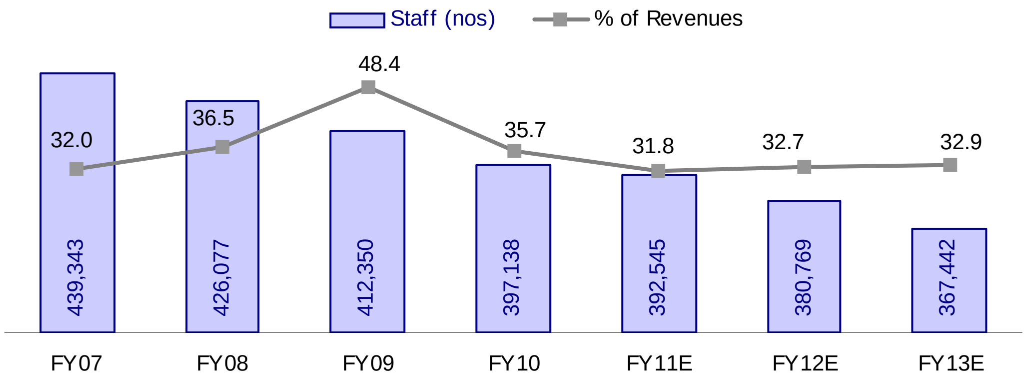
Realization improvement for CIL is a function of 3-4% per annum hike in raw coal prices v/s 6% average over FY06-10, and increased contribution from e-auction and beneficiated coal

...leading to realization improvement of 5.1% CAGR till FY13 (Rs/tonne)



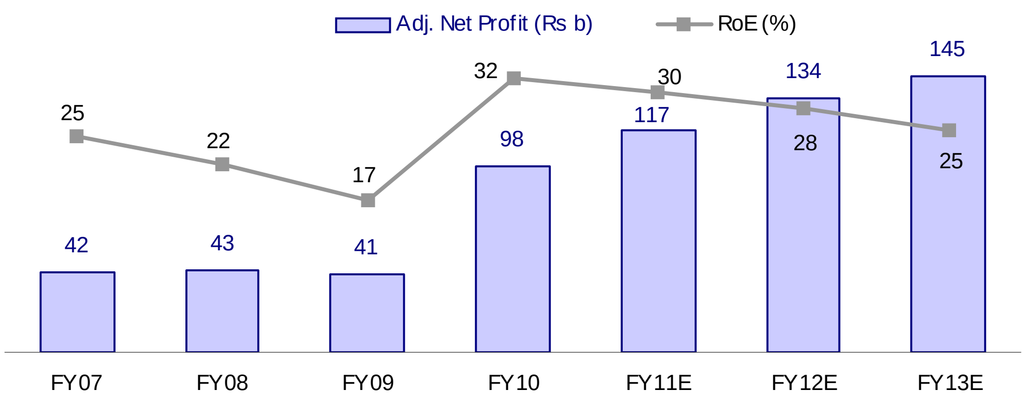
We have assumed attrition rate at 3% per annum, and wage bill increase of 25% in FY12 and 15% in FY13

Operating cost efficiencies, given savings on staff cost (% of revenues)



Improved realizations, product mix, volume growth and cost efficiencies would drive 14% earnings CAGR till FY13. Reported RoE continues to be impressive at 44%+ in FY10, despite Rs391b of cash on the books

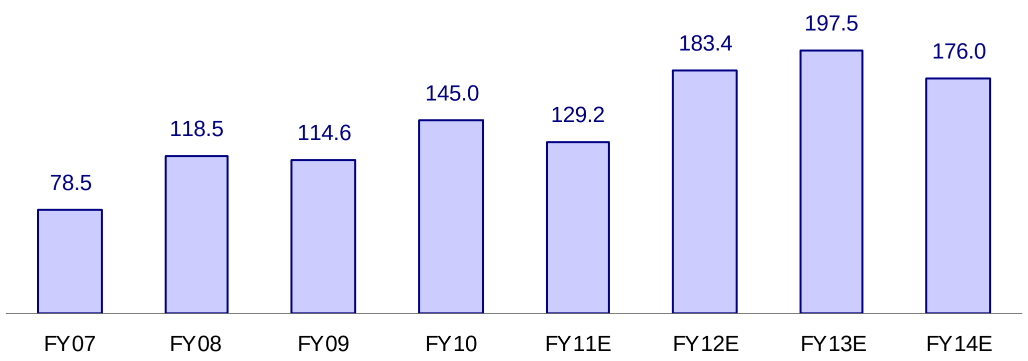
Net earnings CAGR of 14% over FY10-13; FY10 RoE impressive at 32%



Source: Company/MOSL

CIL has high operating free cash flows, given its asset light business model and the characteristics of a sellers' market

Meaningful free cash flow generation (operating cash flow, Rs b)



Source: Company/MOSL

Comparative valuations: Indian Utilities

Company	Mkt Cap	RoE (%)			P/BV (x)			P/E (x)			EV/EBITDA (x)		
	(Rs b)	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
CIL*	**1,548**	**30.0**	**28.0**	**25.5**	**4.6**	**3.6**	**3.0**	**13.3**	**11.6**	**10.7**	**8.4**	**6.9**	**5.8**
NHPC	384	7.2	8.5	9.8	1.6	1.5	1.4	22.5	18.0	14.7	15.7	13.3	11.3
NTPC	1,725	14.4	15.1	16.0	2.5	2.3	2.1	18.2	15.9	13.8	10.5	11.0	10.0
PGCIL	481	13.9	14.2	14.9	2.2	2.0	1.8	18.1	14.5	12.4	12.0	10.7	9.9
GAIL	628	19.1	18.6	19.7	3.2	2.9	2.5	17.0	15.4	12.7	14.7	13.0	11.6

*At higher IPO band of Rs245/sh

Source: Company/MOSL

Comparative valuations: Global Peers

Company	Mkt Cap (USD m)	Resource (m ton)	Reserves (m ton)	EV/Res. CY10 (US$/ton)	P/E (x)			RoE (%)		
					CY10	CY11	CY12	CY10	CY11	CY12
Consol Energy	8,138	-	4,500	2.6	15.2	9.9	7.6	21.7	21.1	22.5
Peabody Energy	13,130	9,015	6,836	2.2	16.0	10.9	9.2	18.1	22.6	22.5
China Shenhua Energy	69,728	14,850	5,860	12.7	13.0	11.4	10.7	17.4	17.2	16.2
China Coal Energy	19,582	16,400	6,160	2.5	14.9	12.7	11.0	15.0	15.3	15.8
Exxaro Resources Ltd	6,126	14,142	1,771	3.7	8.1	6.3	5.3	33.9	34.9	32.6
Coal & Allied Industries	8,630	4,917	1,044	7.9	13.9	9.7	9.4	33.5	46.9	39.8
Adaro Energy	7,503	3,484	870	9.8	19.6	12.6	10.4	18.5	24.0	25.1
Bumi Resources	4,877	7,782	2,904	3.1	26.0	17.4	14.9	20.1	23.8	22.3
CIL*	**34,389**	**64,267**	**21,744**	**1.6**	**13.3**	**11.6**	**10.7**	**30.0**	**28.0**	**25.5**

*At higher IPO band of Rs245/sh; for CIL CY10 = FY11

Source: Company/MOSL/Bloomberg

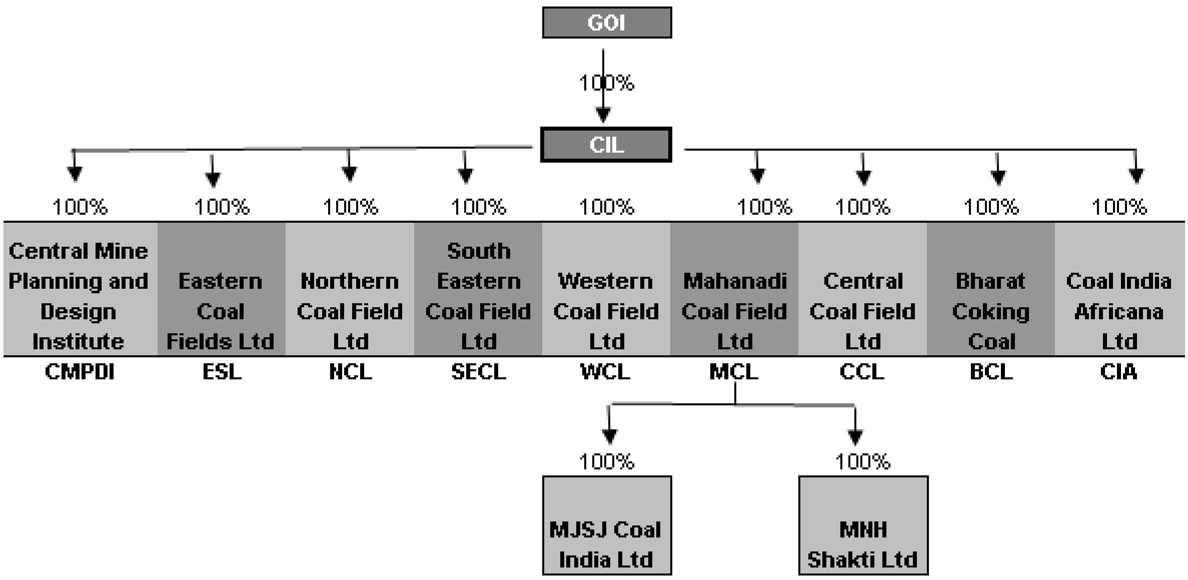
Annexure: 1 - CIL's coal reserves distribution

Source: Company/MOSL

Annexure: 2 - CIL's corporate structure

Coal India Limited (CIL) is a leading public sector undertaking engaged into coal mining in India and is working on establishing its footprint globally through MoUs/acquisition route. CIL operates through its 9 wholly owned subsidiaries, of which 1 subsidiary is engaged in exploration and feasibility study analysis. CIL has total reserves of 64.3b tonnes and proved reserves of 52.4b tonnes, of which extractable reserves stand at 21.7b tonnes. For FY10, CIL's production stood at 430m tonnes (+6.8% YoY), of which ~89% was from open cast mines, while balance was from underground mines.

CIL's corporate and holding structure



Source: Company

Annexure: 3 - CIL's resources distribution

Coal Reserve (m ton)

Coal Field	Proved	Indicated	Inferred	Total	Extractable	Proportion (%)	Rated Cap. (mtpa)
Coalfields in production							
Talcher	7,568	1,721	640	9,929	5,893	27	69
Korba	3,896	1,605	51	5,552	2,670	12	75
IB Valley	3,242	161	0	3,403	2,119	10	45
North Karanpura	4,458	35	0	4,493	2,072	10	24
Singrauli	3,270	212	0	3,482	1,891	9	77
Jharia	5,983	1,009	51	7,043	1,145	5	33
Wardha-Valley	2,249	614	58	2,921	795	4	29
Central India Coal Field	2,665	892	123	3,680	774	4	29
East Bokaro	2,116	1,110	0	3,226	692	3	10
Raniganj	7,556	1,242	379	9,177	662	3	21
Rajmahal/Deogarh	1,378	382	579	2,339	546	3	11
Mand Raigarh	1,957	114	0	2,071	659	3	5
West Bokaro	1,516	236	10	1,762	462	2	7
South Karanpura	1,550	196	7	1,753	308	1	5
Makum	362	0	0	362	239	1	1
Umrer Nand Bander	558	1	0	559	215	1	4
Kamptee	817	121	0	938	214	1	5
Pench-Kanhan	693	199	44	936	148	1	5
Ramgarh	386	19	0	405	138	1	1
Pathakhera	190	28	0	218	87	0	4
Giridh	18	0	0	18	15	0	1
Sub-Total	**52,428**	**9,897**	**1,942**	**64,267**	**21,744**	**100**	**462**
Coalfields currently not under production							
Daltonganj	16	0	0	16	0	0	
Hutar	0	0	0	0	0	0	
Tatapani-Ramkola	97	387	0	484	0	0	
Dilli-Jeypore	4	14	0	18	10	0	
Sub-Total	117	401	0	518	10	0	
Total	**52,545**	**10,298**	**1,942**	**64,785**	**21,754**	**100**	

Source: Company

Financials: Key operational / Financial metrics

Key operational / Financial metrics

	FY08	FY09	FY10	FY11E	FY12E	FY13E
Production (m tons)	**378**	**403**	**430**	**459**	**485**	**508**
% YoY		*6.4*	*6.8*	*6.8*	*5.6*	*4.7*
Coal Sales (m tons)						
Linkages	325	331	350	364	402	420
Proportion (%)	*88.3*	*84.0*	*85.3*	*84.5*	*85.0*	*84.7*
E-Auction	29	49	46	51	53	56
Proportion (%)	*7.8*	*12.4*	*11.2*	*11.7*	*11.3*	*11.3*
Beneficiated coal	14	14	15	16	18	20
Proportion (%)	*3.9*	*3.6*	*3.6*	*3.8*	*3.7*	*4.1*
Total	**368**	**394**	**410**	**431**	**473**	**496**
% YoY		*7.1*	*3.9*	*5.0*	*9.9*	*4.9*
Realization (Rs/ton)						
Raw Coal (FSA)	801	850	980	1,034	1,065	1,129
E-auction coal	1,347	1,481	1,583	1,700	1,610	1,589
Beneficiated Coal	1,890	2,379	2,134	2,318	2,415	2,383
Blended	**886**	**983**	**1,089**	**1,165**	**1,182**	**1,237**
% YoY		*10.9*	*10.7*	*7.1*	*1.4*	*4.7*
Cost Composition (% of Revenue)						
Stores & Spares	**12.7**	**11.9**	**10.6**	**10.5**	**10.3**	**10.3**
Staff cost	**36.5**	**48.4**	**35.7**	**31.8**	**32.7**	**32.9**
Contractual Exp	7.6	8.2	8.0	8.3	8.5	9.0
Overburden Removal Adj	4.5	5.3	6.5	6.5	5.8	5.5
Others	20.6	19.7	16.8	17.4	16.9	16.9
Total Costs	**81.9**	**93.5**	**77.6**	**74.4**	**74.1**	**74.6**
EBIDTA Margin	**18.1**	**6.5**	**22.4**	**25.6**	**25.9**	**25.4**
Financials (Rs/ton)						
Revenues	886	983	1,089	1,165	1,182	1,237
EBIDTA	**171**	**67**	**256**	**312**	**320**	**331**
PBT	227	150	348	404	406	417
PAT	**116**	**103**	**240**	**271**	**283**	**292**
Treasury (Rs m)						
Treasury Income	24,276	32,391	30,843	36,003	36,081	39,003
As a % of PBT	**29.1**	**54.8**	**21.7**	**20.7**	**18.9**	**18.9**
Cash/Investments on books	226,794	312,002	403,599	445,012	527,524	615,675
Yield (%)	10.7	12.0	8.6	8.5	7.4	6.8

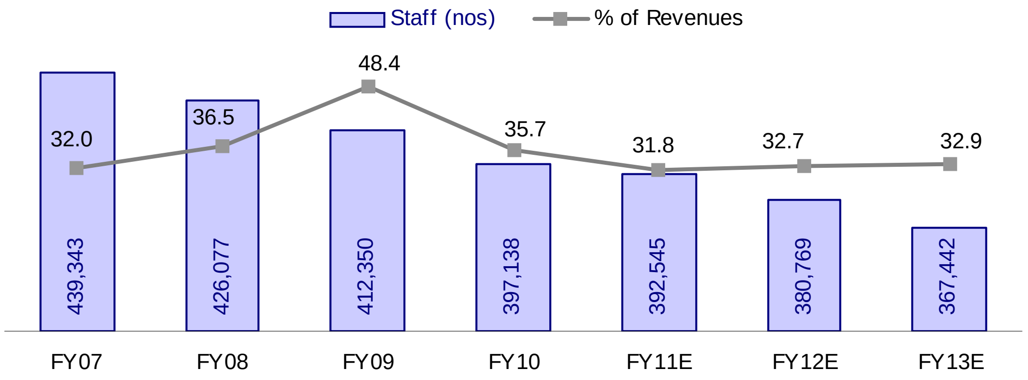
Source: Company/MOSL

Financials and Valuations

Income statement						(Rs Million)
Y/E March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	**346,084**	**408,108**	**466,843**	**525,525**	**585,805**	**645,924**
Change (%)	*9.7*	*17.9*	*14.4*	*12.6*	*11.5*	*10.3*
Operating Expenses	283,313	381,737	362,118	391,237	434,236	481,866
EBITDA	**62,771**	**26,371**	**104,725**	**134,288**	**151,569**	**164,057**
% of Net Sales	*18.1*	*6.5*	*22.4*	*25.6*	*25.9*	*25.4*
EBITDA/ton	165.9	65.5	243.5	292.4	312.5	323.0
Depreciation	15,299	16,629	13,138	14,839	15,897	17,716
Interest	1,693	1,789	1,560	1,492	1,407	1,351
Other Income	37,641	51,196	52,408	55,930	57,051	61,905
Extra Ordinary	-3,758	1,730	2,786	0	0	0
PBT	**87,178**	**57,419**	**139,649**	**173,886**	**191,316**	**206,895**
Tax	34,745	36,633	43,425	57,382	57,395	62,069
Rate (%)	*39.9*	*63.8*	*31.1*	*33.0*	*30.0*	*30.0*
Reported PAT	**52,433**	**20,787**	**96,224**	**116,504**	**133,921**	**144,827**
Change (%)		*-*	*362.9*	*21.1*	*14.9*	*8.1*
Adjusted PAT	**42,850**	**40,628**	**98,294**	**116,504**	**133,921**	**144,827**
Change (%)		*-*	*141.9*	*18.5*	*14.9*	*8.1*

E: MOSL Estimates

Operating cost efficiencies, given savings on staff cost (% of revenues)



Source: Company/MOSL

Financials and Valuations

Balance sheet (Rs Million)

Y/E March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	63,164	63,164	63,164	63,164	63,164	63,164
Reserves	108,843	126,918	195,289	273,055	363,452	461,210
Net Worth	**172,007**	**190,082**	**258,453**	**336,219**	**426,616**	**524,374**
Minority Interest	0	19	236	236	236	236
Loans	18,839	21,485	20,869	18,914	17,385	16,399
Defferd tax Liabiity	-6,077	-9,548	-9,658	-9,658	-9,658	-9,658
Capital Employed	**184,769**	**202,037**	**269,900**	**345,712**	**434,579**	**531,351**
Gross Fixed Assets	318,592	332,550	349,453	384,127	426,263	472,612
Less: Depreciation	214,205	222,462	229,144	236,563	244,512	253,370
Net Fixed Assets	**104,387**	**110,088**	**120,309**	**147,563**	**181,751**	**219,243**
Capital Work in Progress	15,683	19,195	22,107	25,656	29,952	34,728
Investments	17,179	15,052	12,821	10,922	9,303	7,925
Inventory	34,074	36,669	44,018	49,551	55,234	60,903
Debtors	16,572	18,475	21,688	24,415	27,215	30,008
Loans and Advances	102,663	117,271	86,762	96,889	104,791	112,135
Cash	209,615	296,950	390,778	434,090	518,221	607,750
Current Liabilities	**240,957**	**294,929**	**346,187**	**378,589**	**412,115**	**446,930**
Provisions	74,447	116,732	82,396	64,787	79,775	94,412
Net Curr. Assets	**47,519**	**57,703**	**114,663**	**161,569**	**213,571**	**269,454**
Capital Employed	**184,769**	**202,037**	**269,900**	**345,710**	**434,577**	**531,349**

E: MOSL Estimates

Working capital movement (days)

Y/E March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Inventory	38	35	36	36	36	36
Debtors	19	17	18	18	18	18
Loans & Advances	115	110	71	70	68	67

E: MOSL Estimates

Current liabilities for CIL includes liability under the head **"OBR Adjustment"**. This indicate (for opencast mines with rated capacity of 1mtpa+) the cost of overburden removal (OBR), which is charged on technically evaluated average ratio (Coal: OB) at each mine with due adjustment for advance stripping and ratio variance account after the mines are brought to revenue. Net of balances of advance stripping and ratio variance at the end of the year is shown as Cost of Removal of OB under the head Current Assets / Liabilities as the case may be.

Financials and Valuations

Ratios

Y/E March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Basic EPS (Rs)	**8.3**	**3.3**	**15.2**	**18.4**	**21.2**	**22.9**
Adjusted EPS	**6.8**	**6.4**	**15.6**	**18.4**	**21.2**	**22.9**
Growth (%)	*1.9*	*-5.2*	*141.9*	*18.5*	*14.9*	*8.1*
Cash EPS	9.2	9.1	17.6	20.8	23.7	25.7
Book Value	27.2	30.1	40.9	53.2	67.5	83.0
DPS	4.1	3.6	4.7	6.1	6.9	7.5
Payout (incl. Div. Tax.)	60.5	55.5	30.4	33.3	32.5	32.5
Interest Rates (%)	8.4	8.9	7.4			
Valuation (x) #						
P/E	36.1	38.1	15.7	13.3	11.6	10.7
Cash P/E	26.6	27.0	13.9	11.8	10.3	9.5
EV/EBITDA	21.6	48.2	11.2	8.4	6.9	5.8
EV/Sales	3.9	3.1	2.5	2.2	1.8	1.5
EV /m ton of Reserves	62.4	58.5	54.2	52.1	48.1	44.0
Price/Book Value	9.0	8.1	6.0	4.6	3.6	3.0
Dividend Yield (%)	1.7	1.5	1.9	2.5	2.8	3.0
Profitability Ratios (%)						
RoE*	21.7	17.5	31.6	30.0	28.0	25.5
RoCE	48.8	30.6	59.8	57.0	49.4	43.1
Leverage Ratio						
Debt/Equity (x)	-1.1	-1.4	-1.4	-1.2	-1.2	-1.1

E: MOSL Estimates ; *RoE is adjusted for OB reserves accounts, as appplicable under IFRS; # At higher IPO price of Rs245/sh

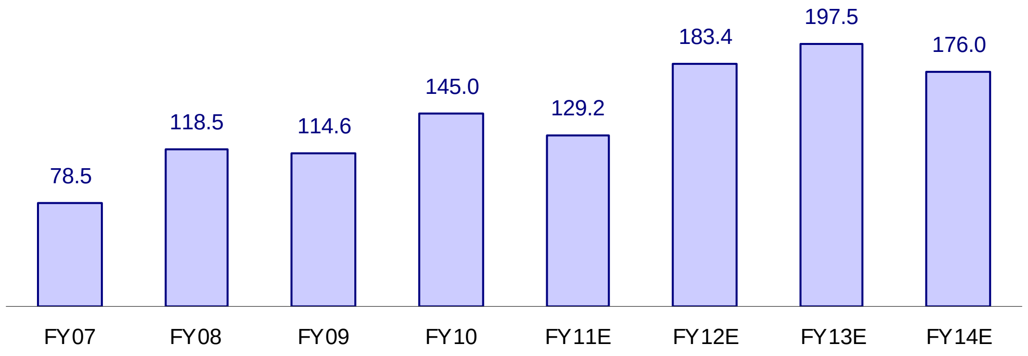
Financials and Valuations

Cash flow statement (Rs Million)

Y/E March	FY08	FY09	FY10	FY11E	FY12E	FY13E
PBT before Extraordinary Items	90,936	55,689	136,863	173,886	191,316	206,895
Add: Depreciation	15,299	16,629	13,138	14,839	15,897	17,716
Interest	1,693	1,789	1,560	1,492	1,407	1,351
Less: Direct Taxes Paid	-34,745	-36,633	-43,425	-57,382	-57,395	-62,069
(Inc)/Dec in WC	45,301	77,152	36,868	-3,594	32,128	33,646
CF from Operations	**118,484**	**114,627**	**145,004**	**129,242**	**183,353**	**197,540**
(Inc)/Dec in FA	-13,741	-17,469	-19,815	-38,223	-46,432	-51,125
(Pur)/Sale of Investments	3,080	2,127	2,230	1,900	1,618	1,379
CF from Investments	**-10,661**	**-15,342**	**-17,585**	**-36,324**	**-44,814**	**-49,747**
(Inc)/Dec in Net Worth	-16,650	19,835	2,018	0	0	0
(Inc)/Dec in Debt	-2,600	2,646	-616	-1,954	-1,529	-986
(Inc)/Dec in Differed Tax Liability	-1,806	-3,471	-109	0	0	0
Less: Interest Paid	-1,693	-1,789	-1,560	-1,492	-1,407	-1,351
Dividend Paid	-25,907	-22,547	-29,871	-38,738	-43,524	-47,069
Others	-8,845	-6,623	-3,453	-7,422	-7,949	-8,858
CF from Fin. Activity	**-57,501**	**-11,949**	**-33,591**	**-49,605**	**-54,409**	**-58,264**
Inc/Dec of Cash	**50,322**	**87,335**	**93,828**	**43,313**	**84,130**	**89,529**
Closing Balance	**209,615**	**296,950**	**390,778**	**434,090**	**518,221**	**607,750**

E: MOSL Estimates

Meaningful free cash flow generation (operating cash flow, Rs b)



Source: Company/MOSL

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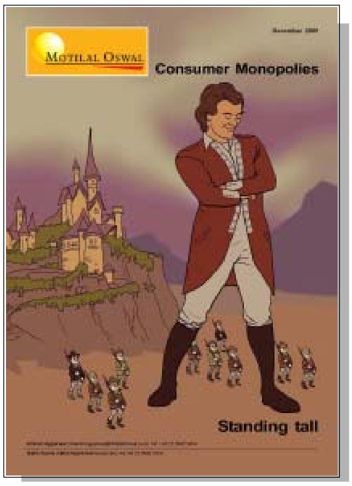
Disclosure of Interest Statement	Coal India
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No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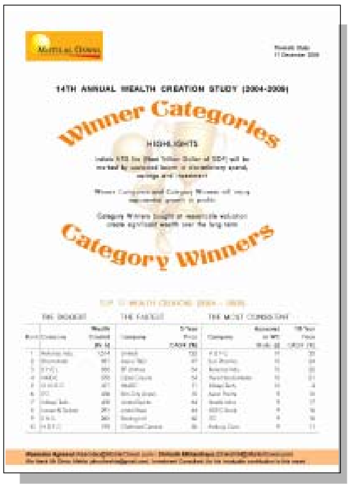
Standing tall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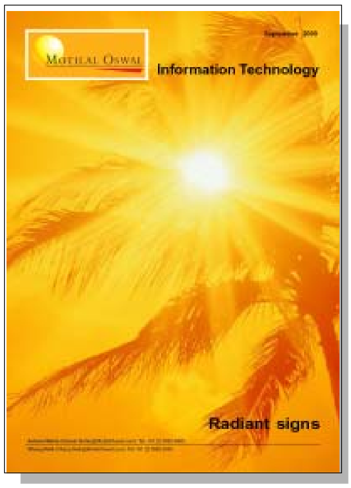
HIGHLIGHTS
Category Winners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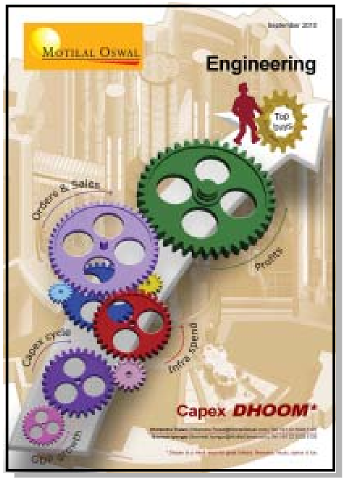
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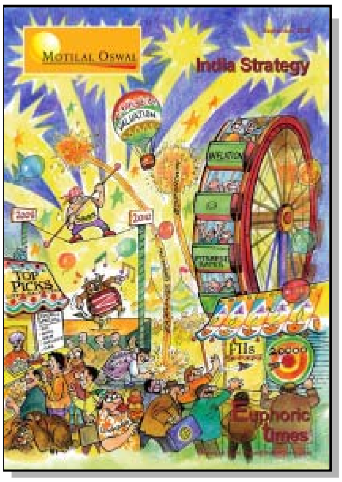
Orders & Sales
Profits
Capex cycle
Infra spend
Capex DHOOM*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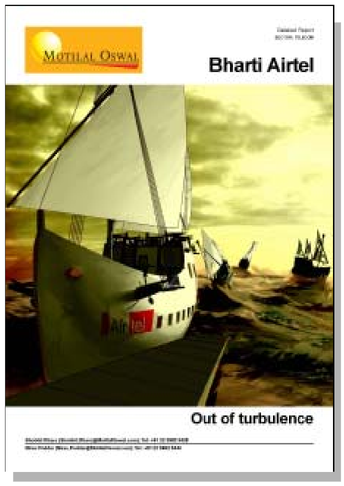
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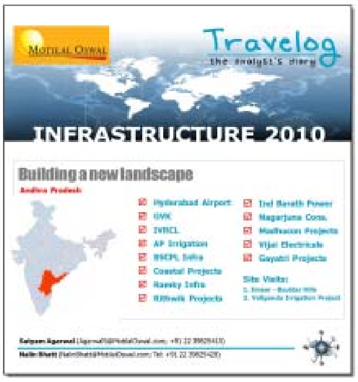
Out of turbulence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Building a new landscape


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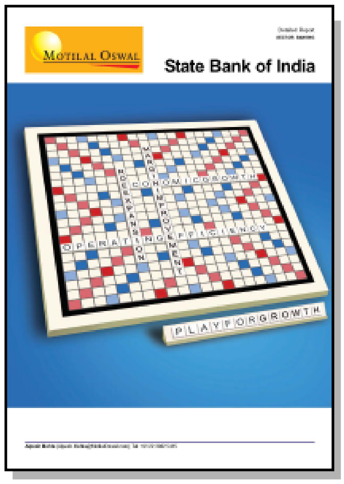
STILL AT DISCOUNT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