

COMPANY QUICK COMMENT

In its CSR audit report on CIL, the CAG cited that 239 mines which have been in operation since before 1994, do not have prior environment clearance. We note [1] CAG does not recommend any action especially in terms of closure of the mines; [2] CIL has already applied to MoEF for securing EC, which should now be expedited; [3] The risk of MoEF not awarding EC is low, total production from these mines is not known, but a comforting factor, in our view, is that of the 170/239 mines are UG mines and ~90% of CIL's production comes from OC mines. We maintain our earnings forecasts and TP.

Price target: 433.0 INR

Price (08 Sep 2011): 386.2 INR

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CAG report cites absence of EC for 239 mines; no action recommended**EVENT**

In its recently published report on the performance audit of CSR (Corporate Social Responsibility) activities undertaken by Coal India (CIL) for the period of April 2004 to March 2010, the Comptroller & Auditor General (CAG) cited that CIL operated 239 mines in existence prior to 1994 (48 open cast, 170 underground, 21 combined), without prior Environment Clearance (EC). Of the 239 mines, 173 mines are under BCCL and ECL and an additional 22 mines are in CCL. Further, as per the report, CAG observed that in a sample of 26 mines (18 open cast and 8 underground), production capacity was expanded in 10 mines without prior environment clearance.

ANALYSIS / IMPLICATIONS

After going through the report and speaking with CIL management, we note the following:

[1] CAG has *observed* that 239 CIL mines are operating without EC; it *has not recommended* any action in terms of closure of the mines.

[2] While the cumulative production from these 239 mines identified is not known, we note that 170 are underground (UG) mines and bear in mind that over 90% of CIL's production comes from open cast (OC) mines.

[3] Expectedly, management confirmed that CIL's application for securing EC for these mines is pending with the MoEF. In our view, highlighting the issue of pending ECs would help in expediting issuance of the clearances by the MoEF.

[4] While there is a risk that MoEF may not award clearances to some of these mines (which would potentially necessitate the closure of such mines and loss of production), we believe the probability of this scenario is low.

Valuation Methodology and Investment Risks: Please see below.

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Coal India	COAL IN	386.2 INR	08 Sep 2011	Buy	

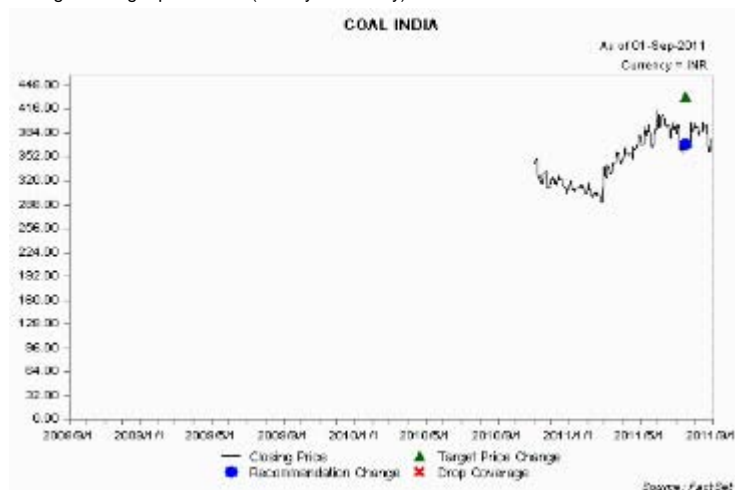
Previous Rating

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

Coal India (COAL IN)

386.2 INR (08 Sep 2011) Buy

Rating and target price chart (three year history)



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

Valuation Methodology We arrive at our Rs433/share 12-mth target price for CIL using a sum-of-the-parts of [1] FCF-based methodology to value the cash flows from its 10.6bn tons of proven reserves, and [2] EV/ton based value of CIL's probable reserves (8.3bn tons) and remaining resources (45.5bn tons) as per the JORC Code.

Risks that may impede the achievement of the target price Key risks: 1) Regulatory uncertainty particularly around pricing flexibility, environmental/forest clearance and restriction on e-auction coal sales; 2) lower-than-expected coal despatch due to lower rake availability; 3) delays in land acquisition/possession; and 4) wage revision of non-executives is higher than our expectation of a 30% increase.

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As at 30 June 2011.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

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