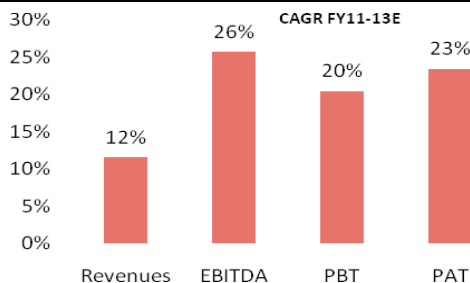


January 03, 2012

Event Update

Metals & Mining Sector Outlook - Cautious



Recommendation	NEUTRAL
CMP (₹)	327
Price Target (₹)	383
Upside (%)	17
52 Week H / L ₹	422/289
BSE 30	15767

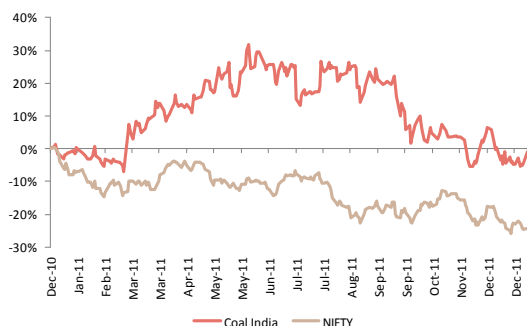
Key Data

No. of Shares, Mn.	6136
Mcap, ₹ bn	2065
Mcap, USD Mn @ ₹45	39.7
2 W Avg Qty (BSE+NSE) (mn)	3.4

Share holding, Sep'11

Promoters	90.0
FII	6.3
DII	1.6
Public & Others	2.1

Performance	1 M	3 M	6 M	12 M
Stock Return %	-6.7	-6.3	-18.8	-0.8
Relative Return %	1.5	-0.1	-1.2	23.6



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Coal India Ltd has implemented new coal pricing mechanism based on the Gross Calorific Value (GCV) from the earlier Universal Heat Value (UHV). This change has resulted in to 17 categories of steam coal from earlier 7 categories namely A-G. we believe this shift **would certainly lead to higher realizations but pin point benefit of such changed mechanism is difficult to evaluate at this juncture due to non availability of grade (new) wise output. Broad analysis suggests pricing difference from -15% to 85% on its E, F and G category coal which accounts for c. 75% of its Non-coking coal volumes.**

Move towards GCV based pricing is a step towards market determined pricing mechanism

The shift to GCV-based pricing has led to classifying non-coking coal into 17 slabs of 300 kcal bandwidth compared with 7 UHV-based categories previously. The range of notified prices has increased across various categories of coal—though a precise computation of the benefit is difficult in the absence of new grade wise output. The biggest beneficiary of this mechanism seems to be Grade C&D where we see substantial price hike. In remaining Grades E.F & G price rise is limited to c.10-12%. We see this move as a long term positive for Coal India Ltd.

Uncertainty remain on Wage hike, MMDR bill

If we assume 35% wage hike and MMDR bill gets implemented, CIL will need to take 17% price hike to maintain our current estimates and target price on its FSA volumes.

Sensitivity to Price Hike

Price Hike on FSA	5%	10%	15%	17%
Avg NSR's ₹	1400	1445	1490	1519
Price target ₹	324	343	371	383

Valuation and Recommendation

We expect CIL's revenues to grow at a CAGR of 10% during FY11—FY13E. Thus at CMP of ₹327 we retain our **NEUTRAL** rating and keep our target price unchanged at ₹383 which translates to EV/EBIDTA multiple of 8x of its FY13E EBIDTA of ₹222bn. We will revise our estimates once more clarity emerges on its new pricing mechanism and post Q3FY12, when company would give meaningful guidance for FY13E.

Financials	Revenues	EBIDTA	Adj NP	Adj. EPS	P.E	EV/EBIDTA	ROE
₹ mn				₹	x	x	%
FY09	460641	26371	40628	6.4	51.0	67.9	21%
FY10	525923	104725	98294	15.6	21.1	16.2	38%
FY11	586658	140570	108674	17.2	19.1	11.5	33%
FY12E	648384	190082	145257	23.0	14.3	8.1	33%
FY13E	714961	222032	165372	26.2	12.5	6.3	29%



Exhibit 1: Shifting of price mechanism

	UHV	Corresponding GCV	New Classification	OLD Pricing				FY10 (volumes)		New Pricing		Difference	
				Average		Average		%	MNT	Power ₹	Others ₹	Power	Others
				Power ₹	Others ₹	Power ₹	Others ₹						
A	>6200	>6400	>7000	3690-4100	3690-4100	3895	3895	1%	4.24	4900	4900	26%	26%
			6701-7000	3690-4100	3690-4100	3895	3895			4690	4690	20%	20%
			6401-6700	3690-4100	3690-4100	3895	3895			4460	4460	15%	15%
B	5600-6200	5801-6400	6101-6400	3590-3990	3590-3990	3790	3790	7%	25.61	4130	4130	9%	9%
			5801-6100	3590-3990	3590-3990	3790	3790			3990	3990	5%	5%
C	4940-5600	5401-5800	5501-5800	1050-1860	1370-2420	1455	1895	10%	38.93	2940	3430	102%	81%
D	4200-4940	4801-5400	5201-5500	880-1610	1140-2090	1245	1615	8%	30.88	2060	2520	65%	56%
			4901-5200	880-1610	1140-2090	1245	1615			1890	2230	52%	38%
E	3360-4200	4200-4800	4601-4900	730-1090	950-1420	910	1185	28%	105.74	1680	2230	85%	88%
			4301-4600	730-1090	950-1420	910	1185			970	1460	7%	23%
F	2400-3360	3600-4200	4001-4300	570-870	740-1130	720	935	46%	175.68	880	1320	22%	41%
			3701-4000	570-870	740-1130	720	935			630	1010	-13%	8%
G	1300-2400	3200-3600	3401-3700	430-700	560-910	565	735	0%	0.01	630	1000	12%	36%
			3101-3400	430-700	560-910	565	735			620	990	10%	35%
			2801-3100	430-700	560-910	565	735			620	870	10%	18%
			2501-2800	430-700	560-910	565	735			550	780	-3%	6%
			2201-2500	430-700	560-910	565	735			480	680	-15%	-7%
	Total								381.09				

Source: Company, Sunidhi Research



Valuations Summary

Year End-March	FY09	FY10	FY11	FY12E	FY13E
Per share (₹)					
EPS	6.4	15.6	17.2	23.0	26.2
CEPS	9.4	18.0	20.8	26.7	30.3
BVPS	30.1	40.9	52.7	70.7	91.4
DPS	2.7	3.5	3.9	5.0	5.5
Payout (%)	42%	22%	23%	22%	21%
Valuation (x)					
P/E	99.7	21.5	19.1	14.3	12.5
P/BV	10.9	8.0	6.2	4.6	3.6
EV/EBITDA	67.9	16.2	11.5	8.1	6.3
Dividend Yield (%)	1%	1%	1%	2%	2%
Return ratio (%)					
EBITDA Margin	7%	23%	28%	33%	34%
PAT Margin	10%	22%	22%	25%	26%
ROAE	22%	44%	37%	37%	32%
ROACE	28%	55%	50%	50%	44%
Leverage Ratios (x)					
Total D/E	0.1	0.1	0.0	0.0	0.0
Net Debt/Equity	-0.9	-1.1	-1.4	-1.4	-1.3
Interest Coverage	32.9	90.9	210.0	165.6	187.1
Current ratio	1.2	1.3	1.4	1.6	1.8
Growth Ratios (%)					
Income growth	17%	16%	14%	12%	11%
EBITDA growth	-58%	297%	34%	35%	17%
PAT growth	-5%	142%	11%	34%	14%

Turnover Ratios

Year End-March	FY09	FY10	FY11	FY12E	FY13E
F.A Turnover x	1.17	1.28	1.37	1.49	1.48
Inventory Days	34.5	36.0	36.1	36.5	36.5
Debtors Days	17.4	17.7	18.0	18.0	18.0

Income Statement(₹ mn)

Year End-March	FY09	FY10	FY11	FY12E	FY13E
Revenues	409444	473515	538695	603384	669961
Op. Expenses	383073	368789	398125	413302	447928
EBITDA	26371	104725	140570	190082	222032
Other Income	51196	52408	47963	45000	45000
Depreciation	18669	15388	22508	23285	26075
EBIT	58898	141745	166025	211797	240958
Interest	1789	1560	791	1279	1288
PBT	57110	140186	165234	210518	239670
Tax	36632	43425	55959	65261	74298
PAT	20787	96224	108674	145257	165372
Adjustments	19841	2070	0	0	0
Adj Pat	40628	98294	108674	145257	165372

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

Year End-March	FY09	FY10	FY11	FY12E	FY13E
Sources of Funds					
Equity Share Capital	63,164	63,164	63,164	63,164	63,164
Reserves & Surplus	126,918	195,289	270,008	383,684	514,316
Net Worth	190,081	258,437	333,138	446,832	577,464
Loan Funds	21,485	20,869	15,536	20,869	20,869
Shifting Fund	12,238	14,774	16,214	14,774	14,774
minority Interest	19	236	326	236	236
Capital Employed	223,824	294,316	365,214	482,711	613,343
Application of Funds					
Gross Block	332,550	349,453	367,211	388,080	434,580
Less: Depreciation	222,462	229,144	238,778	257,598	283,673
Net Block	110,088	120,310	128,433	130,482	150,907
WIP	19,195	22,107	22,181	46,500	50,000
Net Fixed Assets	129,283	142,416	150,613	176,982	200,907
Investments	15,052	12,821	10,637	12,821	12,821
Current Assets	469364	543244	643956	727301	875915
Debtors	18475	21686	30256	32160	35803
Inventory	36669	44018	55856	57888	64446
Cash	296950	390778	458618	547844	680022
Others	117271	86762	99225	89408	95644
Current Liabilities	399423	413825	448725	441610	483517
Creditors & Provisions	399423	413825	448725	441610	483517
Net Current Asset	69941	129419	195230	285691	392398
Deferred Tax Asset	9548	9658	8732	7217	7217
Total	223824	294316	365213	482711	613343

Cash flow Statement

Year End-March	FY09	FY10	FY11	FY12E	FY13E
PBT	80164	144039	165234	210518	239670
Depreciation	10630	6795	16729	23285	26075
Interest Exp	0	0	-29041	1279	1288
Others	0	0	32098	32520	36355
CF before W.cap	90794	150833	184418	235082	267032
Inc/dec in W.cap	54307	22183	-38217	-1234	25471
Op CF after W.cap	145101	173016	146202	233848	292503
Less Taxes	-27907	-39990	-56228	-65261	-74298
Net CF From Operations	117194	133026	89974	168587	218205
Inc/(dec) in F.A + CWIP	-18746	-19804	-24870	-46500	-50000
(Pur)/sale of Investments	2127	2230	2185	0	0
others	0	0	29660	0	0
CF from Invst Activities	-16619	-17573	6975	-46500	-50000
Loan Raised/(repaid)	2646	-616	-4096	0	0
Others	1169	1091	820	-1279	-1288
Dividend	-17054	-22100	-25832	-31582	-34740
CF from Fin Activities	-13239	-21625	-29108	-32861	-36028
Net inc /(dec) in cash	87335	93828	67841	89226	132177
Op. bal of cash	209615	296950	390778	458618	547844
Cl. balance of cash	296950	390778	458618	547844	680022



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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