



Coal India

BSE SENSEX	S&P CNX
18,301	5,482
Bloomberg	COAL IN
Equity Shares (m)	6,316.4
52-Week Range (Rs)	358/245
1,6,12 Rel. Perf. (%)	-1/-/-
M.Cap. (Rs b)	1,901
M.Cap. (US\$ b)	41.8

Rs301

Buy

YEAR	NET SALES*	PAT* #	EPS#	EPS	P/E	P/BV	ROE\$	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
FY10A	466,843	98,294	15.6	76.7	19.3	7.4	31.6	59.8	-0.8	14.6
FY11E	499,837	105,225	16.7	7.1	18.1	5.8	25.7	53.8	-0.8	11.6
FY12E	563,060	122,914	19.5	16.8	15.5	4.6	24.3	49.0	-0.9	9.5
FY13E	617,890	138,156	21.9	12.4	13.8	3.8	22.6	42.8	-1.0	8.2

* Consolidated; # Adjusted; \$ RoE is adjusted for OB reserves accounts, as applicable under IFRS

- 3QFY11 operational performance in-line:** Coal India reported net revenue of Rs127b, EBITDA of Rs33.8b and PAT of Rs26.4b for 3QFY11. We had estimated EBITDA of Rs35.4b and PAT of Rs32.8b. Lower other income at Rs12.9b (v/s our estimate of Rs16b) and higher tax rate at 37.4% (v/s our estimate of 30%) led to lower than estimated PAT. With net cash balance of Rs400b+, we expect Coal India to be one of the biggest beneficiaries of higher interest rates.
- E-auction/washed coal realizations robust:** E-auction volumes were 14.4m tons in 3QFY11 v/s 11m tons in 2QFY11; realizations were ~Rs1,836/ton (v/s Rs1,675/ton in 2Q). Washed coal volumes were 4m tons in 3QFY11 v/s 2.5m tons in 2QFY11; realizations were Rs2,250/ton (v/s Rs2,240/ton in 2Q). A combination of increased volumes and higher realizations contributed to improved QoQ performance in 3QFY11.
- Takeaways from analyst meet/concall:** (1) Dispatch growth restricted due to evacuation issues; expect dispatches of ~427m tons in FY11 (+10m tons YoY), (2) Dispatch target for FY12 is 443-448m tons (up ~20m tons YoY), (3) Hopeful of relaxation of Comprehensive Environment Pollution Index [CEPI]; production target for FY12 is 447m tons (v/s 440m tons in FY11), (4) Estimate e-auction volumes at 12.5% of dispatches for FY11 v/s 11.8% in FY10, (5) First washery at Madhuvan is awaiting environment clearance and will be commissioned in 24 months (assuming 6 months for clearance).
- Valuation and view:** We expect Coal India to report net profit of Rs105b (up 7%) in FY11, Rs123b (up 17%) in FY12, and Rs138b (up 12%) in FY13. The stock trades at 15.5x FY12E and 13.8x FY13E EPS, and at an EV of 9.5x FY12E and 8.2x FY13E EBITDA. **Buy** with a target price of Rs331.

QUARTERLY PERFORMANCE

Y/E MARCH	(RS MILLION)						FY10	FY11E
	FY10	FY11		FY11		FY10		
	1HFY10	1Q	2Q	3Q	4QE			
Sales	202,068	114,493	111,217	126,919	147,209	466,843	499,837	
EBITDA	33,183	30,351	18,721	33,759	45,946	104,725	128,777	
<i>As of % Sales</i>	<i>16.4</i>	<i>26.5</i>	<i>16.8</i>	<i>26.6</i>	<i>31.2</i>	<i>22.4</i>	<i>25.8</i>	
Depreciation	6,669	4,094	3,718	4,136	4,375	13,138	16,323	
Interest	259	567	176	285	563	1,560	1,591	
Other Income	21,335	11,777	11,576	12,876	14,792	52,408	51,021	
Extraordinary Income/(Expense)	0	-41	614	0	0	0	0	
PBT	47,591	37,508	25,789	42,214	55,801	142,436	161,884	
Tax	15,921	12,098	10,841	15,796	17,925	43,425	56,659	
<i>Effective Tax Rate (%)</i>	<i>33.5</i>	<i>32.3</i>	<i>42.0</i>	<i>37.4</i>	<i>32.1</i>	<i>30.5</i>	<i>35.0</i>	
Reported PAT	31,670	25,410	14,947	26,418	37,876	99,011	105,225	
Adjusted PAT (Pre Exceptional)	31,670	25,217	15,561	26,418	37,876	98,294	105,225	

E: MOSL Estimates

3QFY11 operational performance in-line

- Coal India reported net revenue of Rs127b, EBITDA of Rs33.8b and PAT of Rs26.4b for 3QFY11. We had estimated EBITDA of Rs35.4b and PAT of Rs32.8b. Lower other income at Rs12.9b (v/s our estimate of Rs16b) and higher tax rate at 37.4% (v/s our estimate of 30%) led to lower than estimated PAT. With net cash balance of Rs400b+, we expect Coal India to be one of the biggest beneficiaries of higher interest rates.
- Production was 113.9m tons (up 2.5% YoY), in line with our estimate of 115m tons. Dispatches were 110.5m tons, up 3% YoY. For FY11, we expect Coal India to report dispatches of 426.4m tons (up 2.7%), implying dispatches of 117.4m tons (up 3.3% YoY) in 4QFY11.
- Revenue per ton was Rs1,148 in 3QFY11 (v/s Rs1,135 in 1HFY11), EBITDA per ton was Rs305 (v/s Rs247 in 1HFY11) and PAT per ton was Rs238 (v/s Rs205 in 1HFY11).
- Staff cost was Rs45b, in line with our estimate of Rs44.5b. EBITDA margin was 26.6% v/s 16% in 2QFY11 and 25.4% in 1QFY11. Costs declined to Rs843/ton in 3QFY11 v/s Rs888/ton in 1HFY11, given improved operating leverage (due to largely fixed nature of costs).

Cost structure provides strong operating leverage

	% of Revenues		(Rs/ton)	
	3QFY11	1HFY11	3QFY11	1HFY11
RM Cost	0.0	1.0	-14	11
Stores and Spares	10.7	10.4	122	118
Staff Cost	35.5	40.4	407	459
Overburden Removal	5.5	3.4	63	39
Contractual Expenses	9.0	9.2	104	104
Others	12.8	13.9	160	158

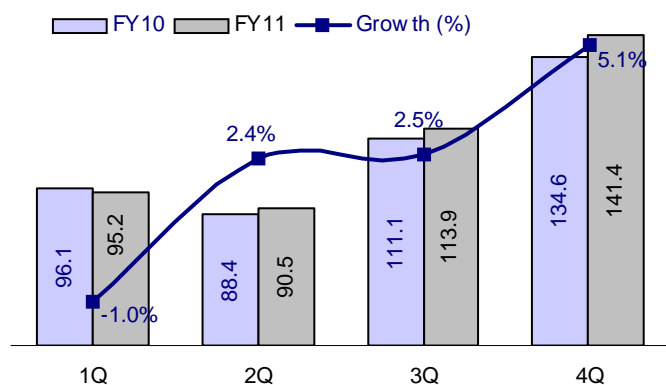
Source: Company/MOSL

Robust performance (Rs/ton)

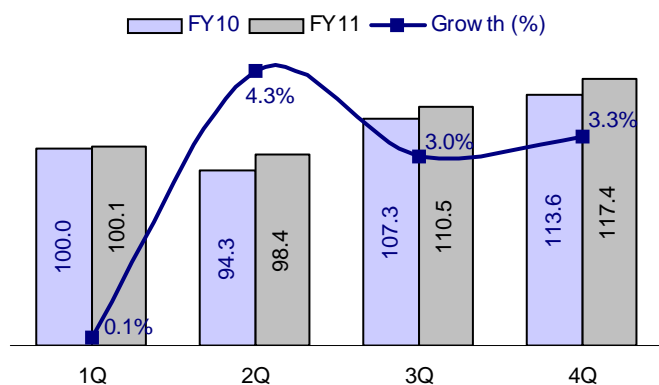
	FY10	1QFY11	2QFY11	3QFY11
Revenues	1,074	1,144	1,130	1,148
EBITDA	252	303	190	305
PAT	237	252	158	239

Source: Company/MOSL

Trend in production and growth (m tons, % YoY)



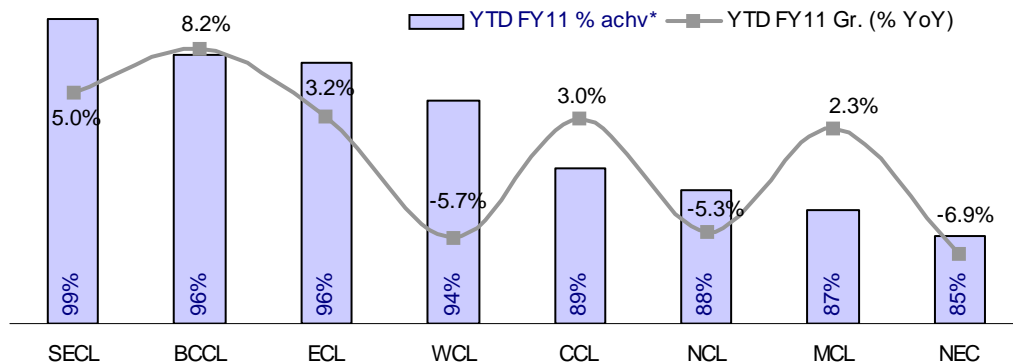
Trend in dispatches (m tons, % YoY)



Source: Company/MOSL

Production growth impacted at MCL and NCL (m tons and % YoY)

Infrastructure bottlenecks and lack of brownfield expansion due to environment issues leading to significantly lower production growth for MCL and NCL in FY11



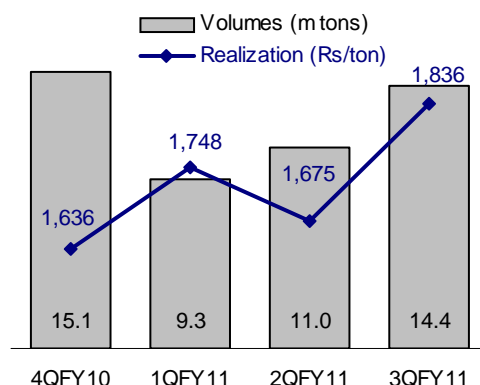
* Achievement v/s target production

Source: Company/MOSL

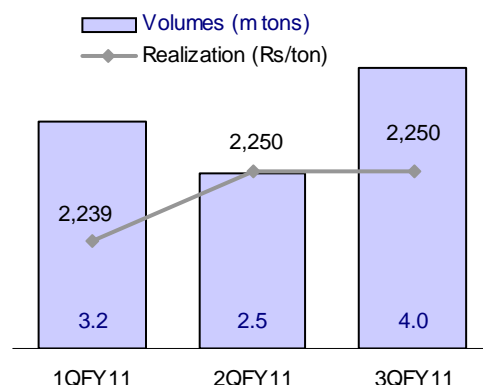
E-auction/washed coal realizations robust

- E-auction realizations improved to ~Rs1,836/ton in 3QFY11 (v/s Rs1,675/ton in 2QFY11 and Rs1,583/ton in FY10) indicating improved prices. However, we had estimated realizations of Rs1,900/ton in 3QFY11.
- E-auction volumes were 14.4m tons in 3QFY11 v/s 11m tons in 2QFY11. A combination of increased volumes and higher realizations contributed to improved QoQ performance in 3QFY11.
- During 4QFY11, there would be higher demand from bricks and other manufacturing industries, but supply is likely to be restricted, leading to strong pricing environment. We understand that the January 2011 e-auction realization for Coal India is Rs1,940/ton+. Also, in FY10, ~32% of the e-auction sales were accounted in 4Q; this could again be a key earnings driver, going forward.
- Washed coal volumes were 4m tons in 3QFY11 v/s 2.5m tons in 2QFY11; realizations were Rs2,250/ton (v/s Rs2,240/ton in 2Q). Lower realizations on washed coal are owing to contractual arrangement, which will get renegotiated over a period of time at higher rates.

Trend in e-auction volumes (m tons) and realization (Rs/ton)

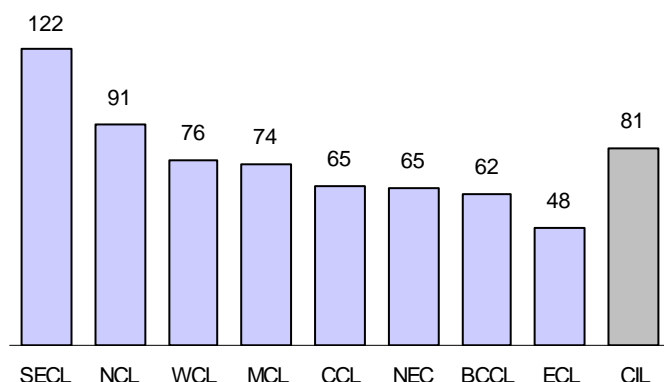


Trend in washed coal volumes (m tons) and realization (Rs/ton)

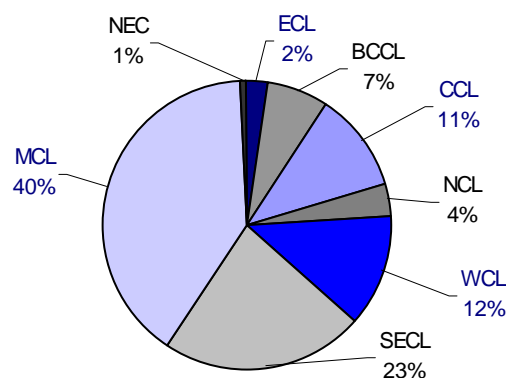


Source: Company/MOSL

E-auction coal premium across subsidiaries in 9MFY11 (%)



Contribution of e-auction volumes in 9MFY11 (% of total)



Source: Company/MOSL

Takeaways from analyst meet/concall

- Rail wagon availability is the key issue impacting dispatch growth; production growth is impacted by CEPI / No Go area imbroglio. Management indicated that addressing the evacuation infrastructure is a key priority in the medium term.
- Rake availability had increased by seven on an average in 9MFY11, but there is no YoY increase in 4QFY11. Incremental dispatches in FY11 are likely to be 10m tons to ~427m tons (v/s 415m tons in FY10), much lower than the original target of 460m tons. This target was based on assurances from Railways for incremental 30 rakes on an average in FY11.
- The rake supply has been much lower than estimated; hence, despite the opening inventory of 60m tons, the dispatches could not increase meaningfully in FY11. Dispatch target for FY12 is 443-448m tons (up ~20m tons) and this will entail moving 10m tons of incremental coal by Railways. This will need incremental ~10 rakes/day on average.
- Management is hopeful of relaxation of Comprehensive Environment Pollution Index [CEPI]; some headway has been made in recent inter-ministerial group meetings. This will contribute to meaningful production ramp-up only from the end of FY13; post relaxation, the process of obtaining approvals / clearances will commence. While the FY12 production target is 447m tons, production increase will be linked to evacuation, as CIL is not keen to add to inventories.
- In the event of poor volume growth in FY11, the management believes price increase will compensate. The company has till date been able to provide coal at below inflationary price increases due to volume growth. If the volume growth does not happen, then consumers will have to be prepared for price increase.
- E-auction volumes likely to be 12.5% of dispatches for FY11 v/s 11.8% in FY10; further increase will be contingent on increased rake availability, as large part of the e-auction volumes are moved through Railways.
- Of the proposed 20 washeries, the first is awaiting environment clearances and will take ~18 months for commissioning post the clearances.

Valuation and view

- We expect Coal India to report net profit of Rs105b (up 7%) in FY11, Rs123b (up 17%) in FY12, and Rs138b (up 12%) in FY13.
- The stock trades at 15.5x FY12E and 13.8x FY13E EPS, and at an EV of 9.5x FY12E and 8.2x FY13E EBITDA. **Buy** with a target price of Rs331. - an upside of 10%.

Coal India: an investment profile

Company description

Coal India Limited (CIL) is a leading public sector undertaking engaged in coal mining in India and is working on establishing its footprint globally through MoUs/acquisition route. CIL operates through its nine wholly owned subsidiaries, of which one subsidiary is engaged in exploration and feasibility study analysis. CIL has total reserves of 64.3b tons and proved reserves of 52.4b tons, of which extractable reserves stand at 21.7b tons.

Key investment positives

- CIL has access to 64.3b tons of reserves, the largest in the world. Of these, 52.4b tons are proven based on Indian Standard Procedure (ISP) guidelines, representing ~6% share of the global proven reserves.
- CIL's profitability and earnings growth are more linear given strong demand from power and other industries, and notified price regime, which ensures favorable return with upside from e-auction/washed coal.
- Washed coal capacity is being ramped up from 39.4m tons to over 111m tons, with the addition of 20 new facilities. Washed coal earns superior returns for CIL and volumes are expected to grow from 16m tons in FY11 (4% of total) to 65m tons by FY16 (12.5% of total).

EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	16.7	17.5	-4.8
FY12	19.5	20.2	-3.6

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	90.0	90.0	-
Domestic Inst	1.6	1.6	-
Foreign	5.6	3.4	-
Others	2.8	5.0	-

Key investment risks

- Large parts of India's coal reserves are located on the eastern belt, which has seen significant increase in Naxalite movement.
- CIL has been facing headwinds for its planned expansion, given delays in requisite environment/forest clearances and land acquisition issues.

Recent developments

- MoEF has agreed to up the score for "critical" polluted areas as specified by CEPI from 70 to 75, freeing CIL's 16 coal blocks.
- Group of Ministers (GoM) is formed and steps to resolve issues like CEPI, "No-Go"; first meeting to be held on 17 February 2011.

Valuation and view

- We expect Coal India to report net profit of Rs105b (up 7%) in FY11, Rs123b (up 17%) in FY12, and Rs138b (up 12%) in FY13.
- The stock trades at 15.5x FY12E and 13.8x FY13E EPS, and at an EV of 9.5x FY12E and 8.2x FY13E EBITDA. **Buy** with a target price of Rs331.

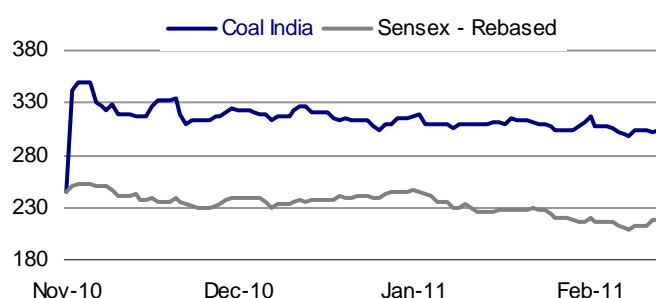
Sector view

- India's coal demand for FY10 stood at ~600m tonnes, v/s domestic availability of 532m tonnes, leading to import of 65m tonnes. Going forward 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.

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
301	331	10.0	Buy

Stock performance (Since 3 November 2010)



Financials and Valuations

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E	
Net Sales	408,108	466,843	499,837	563,060	617,890	
Change (%)	17.9	14.4	7.1	12.6	9.7	
Operating Expenses	381,737	362,118	371,060	417,537	462,589	
EBITDA	26,371	104,725	128,777	145,523	155,300	
% of Net Sales	6.5	22.4	25.8	25.8	25.1	
EBITDA/ton	65.5	243.5	292.1	315.4	322.3	
Depreciation	16,629	13,138	16,323	17,487	19,487	
Interest	1,789	1,560	1,591	1,633	1,520	
Other Income	51,196	52,408	51,021	57,050	63,073	
Extra Ordinary	1,730	2,786	0	0	0	
PBT	57,419	139,649	161,884	183,453	197,366	
Tax	36,633	43,425	56,659	60,540	59,210	
Rate (%)	63.8	31.1	35.0	33.0	30.0	
PAT before Min. Int.	20,787	96,224	105,225	122,914	138,156	
Minority Interest						
Reported PAT	20,787	96,224	105,225	122,914	138,156	
Change (%)	-	362.9	9.4	16.8	12.4	
Adjusted PAT	55,628	98,294	105,225	122,914	138,156	
Change (%)	-	76.7	7.1	16.8	12.4	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E	
Share Capital	63,164	63,164	63,164	63,164	63,164	
Reserves	126,918	195,289	265,000	347,045	440,301	
Net Worth	190,082	258,453	328,164	410,209	503,464	
Minority Interest	19	236	236	236	236	
Loans	21,485	20,869	18,914	17,385	16,399	
Defferd tax Liability	-9,548	-9,658	-9,658	-9,658	-9,658	
Capital Employed	202,037	269,900	337,657	418,172	510,442	
Gross Fixed Assets	332,550	349,453	384,127	426,263	472,612	
Less: Depreciation	222,462	229,144	236,563	244,512	253,370	
Net Fixed Assets	110,088	120,309	147,563	181,751	219,243	
Capital Work in Progress	19,195	22,107	25,656	29,952	34,728	
Investments	15,052	12,821	10,922	9,303	7,925	
Inventory	36,669	44,018	47,129	53,090	58,260	
Debtors	18,475	21,688	23,221	26,159	28,706	
Loans and Advances	117,271	86,762	92,688	102,039	108,800	
Cash	296,950	390,778	429,716	540,787	649,821	
Current Liabilities	294,929	346,187	392,294	446,996	504,885	
Provisions	116,732	82,396	46,946	77,914	92,156	
Net Curr. Assets	57,703	114,663	153,514	197,164	248,545	
Application of Funds	202,037	269,900	337,655	418,170	510,440	

E: MOSL Estimates

RATIOS						
Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E	
Basic (Rs)	3.3	15.2	16.7	19.5	21.9	
Adjusted EPS	8.8	15.6	16.7	19.5	21.9	
Growth (%)	29.8	76.7	7.1	16.8	12.4	
Cash EPS	11.4	17.6	19.2	22.2	25.0	
Book Value	30.1	40.9	52.0	64.9	79.7	
DPS	3.6	4.7	5.6	6.5	7.1	
Payout (incl. Div. Tax.)	40.5	30.4	33.8	33.3	32.5	
Interest Rates (%)	8.9	7.4				
Valuation (x)						
P/E	34.2	19.3	18.1	15.5	13.8	
Cash P/E	26.3	17.1	15.6	13.5	12.1	
EV/EBITDA	-10.4	14.6	11.6	9.5	8.2	
EV/Sales	-0.7	-0.8	-0.8	-0.9	-1.0	
EV /m ton of Reserves	-12.6	-16.9	-18.8	-24.0	-29.0	
Price/Book Value	10.0	7.4	5.8	4.6	3.8	
Dividend Yield (%)	1.2	1.6	1.9	2.1	2.4	
Profitability Ratios (%)						
RoE*	22.8	31.6	25.7	24.3	22.6	
RoCE	30.6	59.8	53.8	49.0	42.8	
Leverage Ratio						
Net Debt/Equity (x)	-1.4	-1.4	-1.3	-1.3	-1.3	

*RoE is adjusted for OB reserves accounts, as applicable under IFRS

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E	
PBT before EO Items	55,689	136,863	161,884	183,453	197,366	
Add : Depreciation	16,629	13,138	16,323	17,487	19,487	
Interest	1,789	1,560	1,591	1,633	1,520	
Less : Direct Taxes Paid	-36,633	-43,425	-56,659	-60,540	-59,210	
(Inc)/Dec in W/C	77,152	36,868	87	67,420	57,654	
CF from Operations	114,627	145,004	123,226	209,455	216,818	
(Inc)/Dec in FA	-17,469	-19,815	-38,223	-46,432	-51,125	
(Pur)/Sale of Investments	2,127	2,230	1,900	1,618	1,379	
CF from Investments	-15,342	-17,585	-36,324	-44,814	-49,747	
(Inc)/Dec in Networth	19,835	2,018	0	0	0	
(Inc)/Dec in Debt	2,646	-616	-1,954	-1,529	-986	
(Inc)/Dec in Differed Tax L	-3,471	-109	0	0	0	
Less : Interest Paid	-1,789	-1,560	-1,591	-1,633	-1,520	
Dividend Paid	-22,547	-29,871	-35,513	-40,869	-44,901	
Others	-6,623	-3,453	-8,906	-9,538	-10,630	
CF from Fin. Activity	-11,949	-33,591	-47,965	-53,570	-58,037	
Inc/Dec of Cash	87,335	93,828	38,938	111,071	109,034	
Add: Beginning Balance	209,615	296,950	390,778	429,716	540,787	
Closing Balance	296,950	390,778	429,716	540,787	649,821	

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

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

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.